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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION  
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COMMISSIONERS

KRISTIN K. MAYES, Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF  
RIO RICO UTILITIES, INC. FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS WATER AND  
WASTEWATER RATES AND CHARGES FOR  
UTILITY SERVICE THEREON.

DOCKET NO. WS-02676A-09-0257

**STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the  
Surrebuttal Testimony of Staff Witnesses Gerald W. Becker, Juan C. Manrique, and Jian W. Liu  
in the above-referenced matter.

RESPECTFULLY submitted this 2<sup>nd</sup> day of March, 2010.

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Original and thirteen (13) copies  
of the foregoing were filed this  
2nd day of March, 2010 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

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WASTEWATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )  
\_\_\_\_\_)

DOCKET NO. WS-02676A-09-0257

SURREBUTTAL

TESTIMONY

OF

GERALD W. BECKER

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 2, 2010

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**EXECUTIVE SUMMARY  
RIO RICO UTILITIES, INC.  
DOCKET NO. WS-02676A-09-0257**

The Surrebuttal Testimony of Staff witness Gerald W. Becker addresses the following issues for Rio Rico Utilities, Inc. ("Rio Rico" or "Company").

For the Water Division, Staff recommends an increase in revenue of \$1,327,271, or a 71.85 percent increase, over test year revenue of \$1,847,256. The total annual revenue of \$3,174,527 produces an operating income of \$718,412 for a 9.20 percent rate of return on Staff's recommended fair value rate base of \$7,808,822.

For the Wastewater Division, Staff recommends a decrease in revenue of \$303,912, or an 18.46 percent decrease, over test year revenue of \$1,829,976. The total annual revenue of \$1,526,064 produces an operating income of \$296,875 for a 9.20 percent rate of return on Staff's recommended fair value rate base of \$3,226,899.

Staff's Surrebuttal Testimony responds to Rio Rico's Rebuttal Testimony on the following issues:

**Rebuttal testimony of Gregory Sorensen**

Low Income Tariff

The Company proposes a low income tariff that includes a ten percent fee for carrying and administrative costs and specifies customer eligibility to participate at 100 percent of the federal poverty level. In its direct testimony, Staff stated that it wanted to undertake additional consideration before making a recommendation. In its surrebuttal testimony, Staff provides additional factors for consideration in the development and implementation of a low income tariff.

**Rebuttal testimony of Peter Eichler**

Cost Allocation Methodology

Mr. Eichler provides extensive discussion regarding the NARUC Guidelines for Cost Allocation and Affiliate Transactions, and the Company continues to maintain that the Company's allocation of corporate expenses is correct. Staff has reviewed Mr. Eichler's rebuttal testimony and continues to disagree.

**Rebuttal testimony of Thomas Bourassa**

Accumulated Deferred Income Taxes ("ADIT") – Both Divisions

In response to Staff inquiries, the Company has performed an extensive analysis and recomputation. The Company has recalculated its total ADIT debit from a \$1,101,805 debit to a \$445,938 debit. Staff continues to disagree with two of the three components of ADIT as discussed herein.

The Company's rebuttal proposes the water division share of ADIT as a \$314,965 debit, or approximately 70.63 percent of the total proposed for both divisions. Staff recommends \$82,782 debit for the water division, or approximately 70.63 percent of Staff's recommended total for both divisions.

The Company's rebuttal proposes the wastewater division share of ADIT as a \$130,973 debit, or approximately 29.37 percent of the total proposed for both divisions. Staff recommends \$34,423 debit for the wastewater division, or approximately 29.37 percent of Staff's recommended total for both divisions.

#### Contributions-In-Aid-Of-Construction ("CIAC") – Both Divisions

Based on a review of the Company's rebuttal testimony, Staff now agrees with the Company's calculation of its gross CIAC balances of \$20,140,197 for the water division and \$5,137,673 for the wastewater division.

#### Regulatory Commission (Rate Case) Expense – Both Divisions

Based on a review of the Company's rebuttal testimony, Staff asks that the Company submit documentation to support its position that the \$17,564 of Regulatory Commission Expense removed by Staff for the water division and, similarly, the \$994 removed from the wastewater division, are not related to rate case expense.

#### Transportation Expense – Both Divisions

The Company's rebuttal proposes the removal from transportation expense of certain costs identified as unnecessary in the amount of \$6,725 for the water division and \$2,242 for the wastewater division. Staff accepts the Company's proposed adjustments.

#### Outside Services and Outside Services – Other – Water Division Only

Based on a review of additional information, Staff now agrees with the Company that invoices marked as "ACC Fees" were for accounting fees, not Commission assessments. Therefore, Staff removes its previous adjustments of \$27,820 and \$17,190 from Outside Services and Outside Services – Other, respectively.

#### Rate Design

The Company disagrees with Staff's rate design. Staff's recommended rate design is unchanged with this filing. Staff remains steadfast on recommending a rate design that provides affordable service of non-discretionary usage levels and encourages efficient use of water. Staff will immediately follow this filing with updated rate design, as necessary, to reflect any changes in revenue requirements that arise from the testimony herein.

**INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Gerald Becker who previously submitted Direct Testimony in this case?**

A. Yes, I am.

**PURPOSE OF SURREBUTTAL TESTIMONY**

**Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff to the Rebuttal Testimonies of Mr. Gregory Sorensen, Mr. Peter Eichler, and Mr. Thomas Bourassa, who represent Rio Rico Utilities, Inc. ("Rio Rico," "RRUI" or "Company")

**Q. Do you attempt to address every issue raised by the Company in its Rebuttal Testimony?**

A. No. I limit my discussion to certain issues as outlined below. My silence on any particular issue raised in the Company's Rebuttal Testimony does not indicate that Staff agrees with the Company's stated Rebuttal position on the issue. I rely on my Direct Testimony unless modified by this Surrebuttal Testimony.



1 **Q. What issues will you address?**

2 A. I address the issues listed below that are discussed in the Rebuttal Testimonies of  
3 Company witnesses Mr. Gregory Sorensen, Mr. Peter Eichler, and Mr. Thomas Bourassa.  
4 Additionally, I have attached updated schedules to reflect the adjustments discussed in this  
5 testimony.

6  
7 **Rebuttal testimony of Gregory Sorensen**

8 Low Income Tariff  
9

10 **Rebuttal testimony of Peter Eichler**

11 Cost Allocation Methodology  
12

13 **Rebuttal testimony of Thomas Bourassa**

- 14 1) Accumulated Deferred Income Taxes ("ADIT") – Both Divisions  
15 2) Contributions-In-Aid-Of-Construction ("CIAC") – Both Divisions  
16 3) Regulatory Commission (Rate Case) Expense – Both Divisions  
17 4) Transportation Expense – Both Divisions  
18 5) Outside Services and Outside Services – Other – Water Division Only  
19 6) Rate Design  
20

21 **SUMMARY OF RECOMMENDATIONS**

22 **Q. Please provide a summary of Staff surrebuttal recommendations.**

23 A. For the Water Division, Staff recommends an increase in revenue of \$1,327,271, or a  
24 71.85 percent increase, over test year revenue of \$1,847,256. The total annual revenue of  
25 \$3,174,527 produces an operating income of \$718,412 for a 9.20 percent rate of return on  
26 Staff's recommended fair value rate base of \$7,808,822.

1 For the Wastewater Division, Staff recommends a decrease in revenue of \$303,912, or an  
2 18.46 percent decrease, from test year revenue of \$1,829,976. The total annual revenue of  
3 \$1,526,064 produces an operating income of \$296,875 for a 9.20 percent rate of return on  
4 Staff's recommended fair value rate base of \$3,226,899.

5  
6 **RESPONSE TO REBUTTAL TESTIMONY OF MR. GREGORY SORENSEN**

7 Low Income Tariff

8 **Q. Is the Company proposing a low income tariff?**

9 A. Yes. Rio Rico proposes to establish a low income tariff to assist economically  
10 disadvantaged customers in paying their utility bills.

11  
12 **Q. What did the Company use as a baseline for developing its low income tariff?**

13 A. Mr. Sorensen's rebuttal testimony (at page 10) states that the proposed low income tariff is  
14 modeled after the one recently approved for Chaparral City Water Company (Docket No.  
15 W-02113A-07-0551) and similar to that proposed in Litchfield Park Service Company  
16 (Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104) and Bella Vista Water  
17 Company, Inc. (Docket No. W-02465A-09-0411).

18  
19 **Q. What are the key provisions of the Company's proposed low income tariff?**

20 A. The low income tariff as described in Mr. Bourassa's direct testimony includes the  
21 following primary components:

- 22 1. A requirement for customers to submit an "Application and Eligibility Declaration"  
23 that provides proof of meeting income eligibility requirements and is subject to  
24 verification.
- 25 2. A requirement for customers to renew eligibility every two years.
- 26 3. Applicable only to residential customers that meet all program qualifications.

- 1           4.    An income eligibility standard of no more than 100 percent of the federal poverty
- 2                level (updated annually).
- 3           5.    A 15 percent discount on the entire water or wastewater bill.
- 4           6.    Recovery of an Administrative Fee for administrative and carrying costs that is equal
- 5                to 10 percent applied to an as yet undetermined cost base.
- 6           7.    Maintenance of a balancing account.
- 7           8.    Recovery of a carrying cost at the authorized rate of return applied in an unspecified
- 8                manner.
- 9           9.    Recovery of program costs from non-participants via a commodity surcharge. The
- 10               Company's application is unclear regarding whether or not non-residential
- 11               customers are included in "non-participants." Further it is not clear how the
- 12               surcharge will be calculated for water and wastewater customers.
- 13          10.   Implementation of the surcharge as soon as possible twelve months after
- 14               implementation.
- 15          11.   Recalculation of the surcharge either every six months or every twelve months (the
- 16               application is not clear and makes reference to both time periods).
- 17          12.   Submission of an annual report showing: number of participants for a six-month
- 18               period during the year; amount of discounts given to participants; administration fees
- 19               and carrying costs charged; amount of surcharge collections from non-participating
- 20               customers; and a computation of the surcharge for the next period (again, the
- 21               application is not clear and references both a six-month and a twelve-month period).

22  
23   **Q.    What is the recent experience with low income tariffs for water and wastewater**  
24   **utilities in Arizona?**

25   **A.**    Use of low income tariffs is for the most part a recent development. The Commission has  
26   authorized low income tariffs for Arizona-American Water Company (W-01303A-07-

1 0209) and Chaparral City Water Company (Docket No. W-02113A-07-0551). In addition  
2 to this case, Mr. Bourassa has also proposed low income programs for several other  
3 pending cases: Litchfield Park Service Company (Docket Nos. SW-01428A-09-0103 and  
4 W-01427A-09-0104), Coronado Utilities, Inc. (Docket No. SW-04305A-09-0291) and  
5 Bella Vista Water Company, Inc. (Docket No. W-02465A-09-0411).

6  
7 **Q. Is the Company's proposed low income tariff the same as that adopted for Chaparral**  
8 **City Water Company and proposed by Litchfield Park Service Company?**

9 A. No. The low income program proposed for Rio Rico, along with the other proposed  
10 programs mentioned above, are all slightly different from the one approved by the  
11 Commission for Chaparral City Water Company and proposed by Litchfield Park Service  
12 Company.

13  
14 **Q. Given that Arizona has limited experience with low income tariffs for water and**  
15 **wastewater utilities, is it unexpected to see differences in the proposed low income**  
16 **programs as knowledge and experience are gained?**

17 A. No. Staff would expect an evolution of the low income programs as Arizona gains  
18 experience with them. However, the Company's proposed changes do not appear to be  
19 based on experience or any other specific information. The Company did not offer or  
20 prepare any demographic studies to determine the incomes in the Rio Rico service area. If  
21 the Company does not have this basic information, it cannot reasonably estimate the  
22 number of eligible customers, the projected costs of the program, or the impact on the  
23 non-participants. The limited experience with low income programs suggests that more  
24 controls and limitations should be applied.

1     **Q.     Does Staff support adoption of a low income tariff for Rio Rico?**

2     A.     Yes.

3  
4     **Q.     Does Staff have any general and specific concerns with Rio Rico's proposed low**  
5     **income tariff?**

6     A.     Yes, Staff has comments for the following points.

7     Income Eligibility – The Company has not explained or supported its proposal to use 100  
8     percent of the federal poverty level as the eligibility cutoff. This proposal represents a  
9     significant decrease from the 150 percent level adopted for Chaparral City Water  
10    Company. Staff concludes that an eligibility standard equal to 150 percent of the federal  
11    poverty level should be adopted unless the Company can demonstrate that its proposed  
12    100 percent level is more appropriate in consideration of the overall interests of the  
13    Company and all customers.

14   Recertification – While Staff agrees with the Company proposal for participants to reapply  
15   at least once every two years, the Company proposes passive, not proactive, reporting of  
16   continuing eligibility. Staff concludes that participants should be required to submit an  
17   affidavit yearly attesting to their continuing eligibility.

18   Participation Cap – The Company has not proposed any limitation on the number of  
19   customers that may participate in the program. Allowing unfettered participation could be  
20   burdensome to ineligible customers to whom the costs of the low income discounts would  
21   be transferred. This concern is exacerbated by the Company's inability to reasonably  
22   estimate participation. In order to limit the low income surcharge to less than 10 percent  
23   of the monthly bill for non-participants, Staff concludes that participation should be  
24   limited to 2,200 customers for the water division and 725 customers for the wastewater  
25   division (approximately 30 percent).

1        Administrative Fee – The Company proposes an administrative fee pertaining to its low  
2        income program. Details of this proposed fee are unclear. Mr. Bourassa’s direct  
3        testimony (at page 19) states, “The program costs (the discounts given to participants plus  
4        a 10 percent fee for administration and carrying costs) would be recovered from non-  
5        participants via a commodity surcharge.” Staff concludes that the low income program  
6        should allow the Company to seek recovery only of direct costs (i.e., costs directly  
7        associated with the program – those that would not be incurred in the absence of the  
8        program), and that the Company should account for these direct costs separately from  
9        other costs. Staff further concludes that the authorized rate of return is a reasonable  
10       carrying rate. The carrying rate should be applied monthly to the average of the beginning  
11       and ending balance of the cumulative unrecovered program costs and included in the  
12       beginning balance for the following month.

13       Surcharge Initiation, Recalculation Frequency and Approval – The Company proposes to  
14       initiate a surcharge to recover the program costs (discounts, administrative fee and  
15       carrying charges) as soon as practicable after the first twelve months of implementation.  
16       However, it is unclear how often the surcharge would be recalculated; the Company’s  
17       proposal references both a six-month and a twelve-month period. The Company’s  
18       proposal has a provision for annual reporting to the Commission, but does not specifically  
19       require Commission approval of the proposed surcharge before implementation. Staff  
20       concludes that its recommended revenue combined with Staff-recommended limits on  
21       participation will provide Rio Rico with sufficient cash flow to carry the program costs for  
22       twelve months, and that the surcharge should be implemented twelve months after  
23       authorization of the program and subsequent to Commission approval of the specific  
24       surcharge amount, and recalculated each twelve months thereafter. Staff further concludes  
25       that resetting the surcharge in mid-year without Commission oversight would be

1 inappropriate and providing oversight for resetting the surcharge every six months would  
2 not be an efficient use of regulatory resources.

3 Surcharge Recovery Customer Base – The Company’s proposal to recover the low income  
4 program costs from non-participants could use clarification. Staff concludes that recovery  
5 of low income program costs via a surcharge should be applicable only to the residential  
6 customer class.

7 Surcharge Calculation - The Company has not provided a clear method for periodically  
8 calculating the low income surcharge. Staff concludes that the Company should maintain  
9 separate balancing accounts for its water and wastewater divisions and separate surcharges  
10 should be calculated for the water divisions and the wastewater divisions. Staff further  
11 concludes that the following is an appropriate surcharge calculation method. The  
12 surcharge shall equal a dollar-and-cents amount resulting from dividing the ending  
13 balance of the low income balancing account properly calculated by the number of bills  
14 properly issued to non-participating residential customers during the past twelve-month  
15 tracking period. The ending balance in the balancing account should equal the beginning  
16 balance plus discounts allowed on bills in the twelve month tracking period plus direct  
17 program costs incurred in the twelve-month tracking period plus carrying charges less  
18 surcharge fees billed in the twelve-month tracking period.

19 Reporting Requirement - Mr. Bourassa’s direct testimony (at page 20) states, “RRUI  
20 expects that it will need to submit an annual report showing the number of participants for  
21 the six-month period, the discounts given to participants, administration fee and carrying  
22 costs, and the collections made from nonparticipants though the surcharge. The Company  
23 would also report the balance of the low income balancing accounts and show a  
24 computation of the next twelve-month commodity surcharge and submit updated gross  
25 annual income guidelines as updated by the federal government.” Removing the reference  
26 to a six-month period to reflect annual surcharge recalculation, Staff agrees that the

1 Company should submit an annual report as one step of the annual process for the  
2 Commission to approve and reset the surcharge amount.

3  
4 **Q. What is Staff's recommendation with respect to the low income tariff?**

5 A. Staff recommends approval of the low income tariff consistent with its comments and  
6 conclusions discussed above.

7  
8 **RESPONSE TO REBUTTAL TESTIMONY OF MR. EICHLER**

9 **Q. Did Staff review the rebuttal testimony of Mr. Peter Eichler?**

10 A. Yes. Mr. Eichler claims that (1) RRUI's allocation method is consistent with NARUC  
11 Guidelines for Cost Allocation and Affiliate Transactions and that (2) "APT costs are all  
12 indirect costs . . . ." <sup>1</sup>

13  
14 **Q. Does Staff agree?**

15 A. No. Staff addresses the allocation methodology and its application below.

16  
17 NARUC Guidelines for Cost Allocation and Affiliate Transactions

18 **Q. What is required regarding cost allocations by the NARUC Guidelines for Cost**  
19 **Allocation and Affiliate Transactions?**

20 A. These guidelines require that the costs primarily attributable to a business operation  
21 should be, to the extent appropriate, directly assigned to that business operation.

22  
23 **Q. Does the Company claim that it is in full conformity with NARUC guidelines**  
24 **pertaining to cost allocations?**

25 A. Yes.

---

<sup>1</sup> Rebuttal Testimony of P. Eischler, page 4, lines 20-24.



1     **Q.     Did Mr. Eichler provide specific evidence to substantiate its claim?**

2     A.     No.   Mr. Eichler discusses NARUC guidelines at length and claims that RRUI is  
3           following these guidelines, but he does not demonstrate the relationship between his claim  
4           and the evidence of record.

5  
6     **Q.     Please explain the reasons that Staff disagrees.**

7     A.     Staff concludes that, before allocating any corporate office costs, the overall nature and  
8           objectives of the parent company fund should first be considered in appraising the need  
9           for those costs.

10  
11    **Q.     How does the Algonquin Power Income Fund ("Fund" or "APIF") produce income**  
12    **for its shareholders?**

13    A.     The Fund, according to its 2008 annual report, produces earnings for its shareholders  
14           through a diversified portfolio of renewable energy and utility assets.

15  
16    **Q.     What was the APIF's business strategy?**

17    A.     The Fund's 2008 annual report states the following concerning its business strategy:

18  
19           *Algonquin's business strategy is to maximize long term unit holder*  
20           *value by strengthening its position as a strong renewable energy*  
21           *and infrastructure company. **The Company is focused on growth***  
22           ***in cash flow and earnings** in the business segments in which it*  
23           *operates. (emphasis added)*

24  
25    The Fund's 2007 Report contained similar language:

26  
27           ***Focused on Growth***

28  
29           *The year 2007 was a year of growth opportunities, change, and*  
30           *performance achievements for Algonquin Power Income Fund. The*  
31           *Fund's management team and exceptional group of employees and*  
32           *associates spent 2007 working on many new initiatives, including,*  
33           *but not limited to wind development projects, the completion of St.*  
34           *Leon Wind Energy ("St. Leon"), the re-powering of the Sanger,*

1                    *California co-generation facility, acquisition projects, and*  
2                    *welcoming a new CFO to the Fund.*<sup>2</sup> (emphasis added)

3  
4     **Q.     What was the APIF's income for 2008?**

5     A.     The APIF generated \$57 million in income before taxes according to its 2008 audited  
6             financial statements. This compares with the adjusted operating income (loss) of  
7             (\$97,855) and \$479,144 for the water and wastewater divisions, respectively.

8  
9     **Q.     Does Staff agree with the Company's statement that "the cost pool would be**  
10            **significantly lower if Algonquin did not own the utilities division? While the business**  
11            **structure of being a publicly traded company does drive a significant portion of the**  
12            **Central Office costs, these costs are still incurred to the benefit of the utilities it**  
13            **owns."**<sup>3</sup>

14     A.     No, Staff does not. The cost pool exists primarily to further the interests of APIF and its  
15             shareholders. The APIF is an unregulated for-profit business that incurs costs primarily  
16             for the benefit of its shareholders. Making a profit is the ultimate reason any for-profit  
17             company incurs expenses. The Fund is focused on "*growth in cash flow and earnings*" as  
18             evidenced from its business strategy. Since shareholders seek a profit and the APIF incurs  
19             expenses (e.g. central office costs) in order to generate that profit, then a reasonable  
20             conclusion is that the central office costs are incurred primarily for the benefit of the  
21             shareholders rather than for Rio Rico as the Company indicates. The central office costs  
22             would have been incurred even if the Fund did not own Rio Rico because the central  
23             office costs were incurred to make a profit for the shareholders and not to operate Rio  
24             Rico. The benefit to Rio Rico is only incidental.

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<sup>2</sup> Algonquin Power Annual Report for 2007, page 6.

<sup>3</sup> Rebuttal Testimony of P. Eichler, page 19, lines 19-23.

1     **Q.     Is there any additional evidence to support Staff's characterization of the Fund as**  
2     **being mostly growth oriented?**

3     A.     Yes, the financial statements indicate that revenues of the Fund grew from \$40 million in  
4     2001 to \$186 million in 2007, for an average growth of 77.5 percent annually.

5  
6     **Q.     How does this growth compare with RRUI in the instant case?**

7     A.     In contrast to the growth reported by the fund, RRUI claims and Staff agrees that there has  
8     been customer contraction which results in negative revenue annualization in its case. In  
9     other words, the utility company in the instant case claims negative growth, which is  
10    contrary to the results of the fund and the fund's basic objectives.

11  
12    **Q.     Are there additional reasons that Staff disagrees.**

13    A.     Yes. In his rebuttal testimony, Mr. Eichler provides extensive testimony regarding the  
14    NARUC guidelines which require the direct charging of direct costs. Staff disagrees that  
15    RRUI is following these guidelines to the extent practicable. In response to Staff data  
16    request 4.2, the Company provided invoices greater than \$5,000 to support the pool of  
17    allocable costs. In reviewing the invoices, Staff noted that significant amounts either  
18    should have been directly charged or should not have been chargeable at all. For example,  
19    the Company claimed that it had \$1,021,609 in audit costs subject to allocation. Staff  
20    reviewed the invoices and determined that \$739,533, or 72.4 percent, were either out of  
21    period or were not supported by invoices, leaving less than 28 percent of costs to be  
22    allocable.

23  
24    In its license and fees accounts, there are numerous payments to the Province of Quebec  
25    for tax payments, charitable contributions, and litigation costs for matters outside of the  
26    State of Arizona and identifiable to specific activities that under the NARUC guidelines

1 should have been directly charged to those activities instead of collected in a cost pool for  
2 indirect allocation.

3  
4 APIF Management and Trustee Fees

5 **Q. Does Staff agree with the Company's claim that Staff's provision for management**  
6 **fees from the central office is inadequate on a stand-alone basis?**

7 A. No, Staff does not. The managers at the central office, not Rio Rico, are directly  
8 responsible for the management of the income fund. Therefore, to add costs for the  
9 management fees from the central office would be duplicative of the management fees that  
10 are already included in Rio Rico's operating expenses. Further, based on the cost  
11 causation principle, the management fees should be allocated to the APIF because those  
12 costs are directly attributable to the APIF.

13  
14 **Q. What does Staff recommend?**

15 A. Staff continues to recommend the expense adjustments as reflected in its Direct  
16 Testimony.

17  
18 **RESPONSE TO REBUTTAL TESTIMONY OF MR. THOMAS BOURASSA**

19 Accumulated Deferred Income Taxes ("ADIT") – Both Divisions

20 **Q. What is an ADIT?**

21 A. As discussed more fully in Staff's Direct Testimony, ADITs are the accumulated  
22 temporary tax differences between income taxes calculated for rate-making purposes and  
23 the actual income taxes that a company pays to the United States Treasury and the State of  
24 Arizona. In the instant case, the proposed receivable is comprised of three items: the tax  
25 benefits associated with the differences between the book and tax treatment of fixed assets

1 and associated depreciation, the tax benefits associated with net AIAC on its books, and  
2 the tax benefits of net operating loss (NOL) carry forwards.

3  
4 **Q. Please summarize ADIT originally proposed by the RRUI, Staff's recommended**  
5 **amounts in its Direct Testimony, and the RRUI's adjusted position as reflected in its**  
6 **rebuttal testimony.**

7 A. The ADIT amounts as filed by RRUI, as recommended by Staff in its Direct Testimony,  
8 and as proposed by RRUI in its Rebuttal Testimony are shown below:

9

	<u>Per RRUI, as filed</u>	<u>Per Staff</u>	<u>RRUI-Rebuttal</u>
11 Fixed Asset Component	\$ 876,750	\$ (479)	\$ 18,681
12 AIAC Component	\$ 28,096	\$139,073	\$139,073
13 NOL Component	<u>\$ 196,960</u>	<u>\$ -0-</u>	<u>\$288,183</u>
14 Total	\$1,101,805	\$138,594	\$445,238

15

16 ADIT-Fixed Asset Component

17 **Q. Please explain the Company's reasons for significantly changing its ADIT position in**  
18 **its rebuttal testimony?**

19 A. The Company's filing contained multiple errors. Changes that are now reflected in its  
20 rebuttal position include corrections to the amounts reflected in RRUI's tax records, tax  
21 basis accumulated depreciation and corrections related to AIAC and CIAC.

22  
23 **Q. Does Staff agree with the Company's rebuttal positions for the ADIT-Fixed Asset**  
24 **Component?**

25 A. No.

1 **Q. Please explain.**

2 A. Staff reviewed RRUI's revised calculations and notes that the Company includes  
3 \$105,049 of unidentified plant in its tax basis calculation. Staff recommends removal of  
4 this item from the calculation.  
5

6 **Q. What does Staff recommend?**

7 A. Staff recommends adjusting the ADIT-Fixed Asset Component for the tax value of the  
8 unidentified plant. That would result in a credit for the ADIT-Fixed Asset Component of  
9 \$21,868, which is the \$18,681 debit, less \$105,049 times 38.6 percent, or \$40,549.  
10

11 ADIT-AIAC Associated Component

12 **Q. Does RRUI agree with Staff's positions in its Direct Testimony?**

13 A. Yes, Staff and RRUI are in agreement regarding the AIAC Associated Component of  
14 ADIT.  
15

16 ADIT-Net Operating Loss Carry forward ("NOL")

17 **Q. Does the Company continue to propose the inclusion of a NOL component in its**  
18 **ADIT calculation?**

19 A. Yes.  
20

21 **Q. Has the Company changed the amount it is proposing?**

22 A. As indicated above, the Company has increased its proposed amount from \$196,060 to  
23 \$288,183.

24 **Q. Does Staff agree with the inclusion of a NOL component in the ADIT calculation?**

25 A. No.

1     **Q.     Please explain.**

2     A.     As discussed in Staff's Direct Testimony, the inclusion of a NOL component in the ADIT  
3           balance creates an inequity to ratepayers because existing rates already include a provision  
4           for income taxes and the opportunity for the Company to earn a stated rate of return. The  
5           fact that the Company did not meet its earnings goals does not mean that the ratepayers  
6           should pay a carrying fee on the unfunded balance.

7  
8     **Q.     Please state any additional reasons that the Company provides to justify the**  
9           **inclusion of a NOL component in its rate base.**

10    A.     In his rebuttal testimony, Mr. Bourassa claims that the NOL carry-forward represents the  
11           unused portion of the special depreciation allowance that the Company elected to take  
12           during the test year. In other words, Mr. Boursassa claims that RRUI was not able to take  
13           full advantage of the special election to pay less taxes in 2008, yet RRUI proposes that  
14           ratepayers pay a carrying charge on the tax benefits that the Company could not realize  
15           immediately.

16  
17    **Q.     Was Staff able to reconcile any of the Company's ADIT components to the parent**  
18           **company's tax return?**

19    A.     No.

20  
21    **Q.     Please explain.**

22    A.     Staff requested a copy of the parent company's tax return in Staff data request 3.3. The  
23           Company declined to provide the requested information. For this reason, Staff makes its  
24           recommendation based on the best known information that is available.

1 **Q. Besides corroborating the ADIT components claimed by the Company, are there**  
2 **other reasons to review the tax return?**

3 A. Yes.  
4

5 **Q. Please explain.**

6 A. A review of the tax return would include a review of the so-called Schedule M-1 items  
7 which provide a comprehensive list of items that the Company uses to reconcile its book  
8 and tax incomes. A review of these could potentially alert Staff to adjustments not  
9 presented by the Company or not yet contemplated by Staff.  
10

11 **Q. Please provide a summary of the Company's rebuttal ADIT proposal, as compared**  
12 **with Staff's surrebuttal recommendation.**

13 A. Following is a summary of the Company's rebuttal position as compared with Staff's  
14 surrebuttal recommendations:

	<u>RRUI-Rebuttal</u>	<u>Staff Surrebuttal</u>
Fixed Asset Component	\$18,681	(\$21,868)
AIAC Component	\$139,073	\$139,073
NOL Component	<u>\$288,183</u>	<u>0</u>
Total	\$445,238	\$117,205

20  
21 Staff further notes that the above total amounts represent the total for both divisions and  
22 the Staff Surrebuttal amount of \$117,205 will be allocated between the two divisions.  
23

24 **Q. What amount does Staff recommend for Water Division ADIT?**

25 A. Staff recommends \$82,782 debit for the water division, or approximately 70.63 percent of  
26 the Staff's recommended total for both divisions.



1 **Q. What amount does Staff recommend for Wastewater Division ADIT?**

2 A. Staff recommends \$34,423 debit for the wastewater division, or approximately 29.37  
3 percent of Staff's recommended total for both divisions.  
4

5 CIAC – Both Divisions

6 **Q. Based on a review of the Company's rebuttal testimony, does Staff now agree with**  
7 **the Company's calculation of its gross CIAC balances?**

8 A. Yes. Staff agrees with the Company's calculation of its gross CIAC balances of  
9 \$20,140,197 for the water division and \$5,137,673 for the wastewater division.  
10

11 Regulatory Commission (Rate Case) Expense – Both Divisions

12 **Q. What Regulatory Commission (Rate Case) Expense is the Company proposing?**

13 A. The Company proposes \$70,000 per year for the instant rate case expense for its water  
14 division, plus \$17,564 of what Staff concludes to be residual rate case expense. Similarly,  
15 the Company proposes \$41,667 per year for the wastewater division, plus \$994 of what  
16 Staff concludes to be residual rate case expense.  
17

18 **Q. What adjustments did Staff make to Regulatory Commission (Rate Case) Expense?**

19 A. Staff reduced Regulatory Commission Expense by \$17,564 for the water division and  
20 \$994 for the wastewater division, as these amounts are not on-going costs.  
21

22 **Q. What is the Company's rebuttal position?**

23 A. The Company contends that these were not rate case expenses but rather other operating  
24 expenses.

1 **Q. What does Staff recommend?**

2 A. Staff continues to recommend its adjustments unless the Company can provide  
3 documentation to support its position regarding the nature of the expenses.  
4

5 Transportation Expense – Both Divisions

6 **Q. Did the Company propose adjustments in its rebuttal to decrease transportation**  
7 **expense by \$6,725 for the water division and \$2,242 for the wastewater division?**

8 A. Yes. The Company's rebuttal proposes the removal from transportation expense of certain  
9 costs that the Company identified as unnecessary. Staff agrees with the adjustments and is  
10 recommending a decrease of \$6,725, from \$79,315 to \$72,590, for the water division and  
11 a decrease of \$2,242, from 26,817 to \$24,575, for the wastewater division (as shown in  
12 Surrebuttal Schedules GWB-11, GWB-19 and GWB-21).  
13

14 Outside Services and Outside Services - Other – Water Division Only

15 **Q. Based on a review of additional information, does Staff agree with the Company that**  
16 **invoices marked as "ACC Fees" were for accounting fees, not ACC assessments?**

17 A: Yes. Staff agrees with the Company and has removed its previous adjustments of \$27,820  
18 and \$17,190 from Outside Services and Outside Services - Other, respectively, for the  
19 water division.  
20

21 Rate Design

22 **Q. Has the Company responded to Staff's rate design testimony that was previously**  
23 **filed?**

24 A. Yes. The Company states that Staff's rate design constitutes "blatant revenue shifting."<sup>4</sup>

---

<sup>4</sup> Rebuttal Testimony of Thomas Bourassa, page 34, line 16.

1     **Q.     Please explain.**

2     A.     The Company states that Staff is “discounting water service and generating a subsidy . . .  
3             for the 5/8 inch metered customers.”<sup>5</sup>

4  
5     **Q.     Does the Company have other concerns?**

6     A.     Yes. The Company complains that Staff’s rate design reduces the percent of revenues  
7             derived from the monthly minimums from 29.6 percent to 28.8 percent.

8  
9     **Q.     How does Staff respond?**

10    A.     Staff is sensitive to the Company’s concerns and Staff weighed a number of factors,  
11             including those cited by the Company, in the development of Staff’s rate design.

12  
13    **Q.     Does Staff have an updated recommendation?**

14    A.     Immediately following this filing, Staff will file updated recommended rates that reflect  
15             any changes to the revenue requirements arising from the adjustments discussed in this  
16             testimony. However, Staff is steadfast in recommending a rate design that seeks to  
17             maintain the affordability of non-discretionary usage and to encourage efficient use of  
18             water through appropriate price signals.

19  
20    **Q.     Does Staff have any comment on the Company’s proposed form of HUF tariff for the**  
21             **water and wastewater divisions?**

22    A.     The Company’s proposed tariffs state that hook-up fees will not be recorded as CIAC until  
23             such amounts have been expended for plant. The proposed treatment is not consistent  
24             with traditional treatment by the Commission and Staff does not recommend a change  
25             from the traditional treatment.

---

<sup>5</sup> Rebuttal Testimony of Thomas Bourassa, page 34, line 16-18.

1     **Q.     Does Staff have a recommendation?**

2     A.     If the Commission decides to allow a hook-up fee tariff for Rio Rico Utilities, the  
3             Company should be required to use the standard hook-up fee tariff form found on the  
4             Commission's website.

5

6     **Q.     Does this conclude your Surrebuttal Testimony?**

7     A.     Yes, it does.

**RIO RICO UTILITIES, INC. WATER DIVISION**

Docket No. WS-02676A-09-0257

Test Year Ended December 31, 2008

**SURREBUTTAL TESTIMONY OF GERALD BECKER**

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GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
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GWB- 21	OPERATING INCOME ADJUSTMENT #10 - TRANSPORTATION EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 8,455,519	\$ 8,455,519	\$ 7,808,822	\$ 7,808,822
2	Adjusted Operating Income (Loss)	\$ (214,606)	\$ (214,606)	\$ (94,038)	\$ (94,038)
3	Current Rate of Return (L2 / L1)	-2.54%	-2.54%	-1.20%	-1.20%
4	Required Rate of Return	12.40%	12.40%	9.20%	9.20%
5	Required Operating Income (L4 * L1)	\$ 1,048,484	\$ 1,048,484	\$ 718,412	\$ 718,412
6	Operating Income Deficiency (L5 - L2)	\$ 1,263,090	\$ 1,263,090	\$ 812,450	\$ 812,450
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6337	1.6337
8	Required Revenue Increase (L7 * L6)	\$ 2,057,065	\$ 2,057,065	<b>\$ 1,327,271</b>	<b>\$ 1,327,271</b>
9	Adjusted Test Year Revenue	\$ 1,847,256	\$ 1,847,256	\$ 1,847,256	\$ 1,847,256
10	Proposed Annual Revenue (L8 + L9)	\$ 3,904,321	\$ 3,904,321	\$ 3,174,527	\$ 3,174,527
11	Required Increase in Revenue (%)	111.36%	111.36%	71.85%	71.85%
12	Rate of Return on Common Equity (%)	12.40%	12.40%	9.20%	9.20%

References:

Column [A]: Company Schedule A-1

Column [B]: Company Schedule A-1

Column [C]: Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	38.7880%					
5	Subtotal (L3 - L4)	61.2120%					
6	Revenue Conversion Factor (L1 / L5)	1.633665					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	37.8015%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.1985%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (Line 44)	33.1429%					
16	Effective Federal Income Tax Rate (L14 x L15)	30.8335%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		37.8015%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.8015%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.1985%					
21	Property Tax Factor (GTM-14, L24)	1.5860%					
22	Effective Property Tax Factor (L20*L21)		0.9864%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			38.7880%			
24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 718,412					
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ (94,038)					
26	Required Increase in Operating Income (L24 - L25)		\$ 812,450				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 451,619					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ (42,154)					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 493,772				
30	Recommended Revenue Requirement (Schedule GWB-1, Line 10)	\$ 3,174,527					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue (GTM-15, 20)	\$ 109,260					
36	Property Tax on Test Year Revenue (GTM-15, Col A, L16)	\$ 88,210					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 21,050				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 1,327,272				
<u>Calculation of Income Tax:</u>							
39	Revenue (Sch GWB-9, Col.(C) L5, GWB-1, Col. (D), L9)	\$ 3,677,232	\$ 1,847,256	\$ 1,829,976	\$ 4,700,591	\$ 3,174,527	\$ 1,526,064
40	Operating Expenses Excluding Income Taxes	\$ 3,030,832	\$ 1,983,448	\$ 1,047,384	\$ 3,047,062	\$ 2,004,498	\$ 1,042,564
41	Synchronized Interest (L47)						
42	Arizona Taxable Income (L30 - L31 - L32)	\$ 646,400	\$ (136,192)	\$ 782,592	\$ 1,653,531	\$ 1,170,030	\$ 483,500
43	Arizona State Income Tax Rate		6.9680%	6.9680%	6.9680%	6.9680%	6.9680%
44	Arizona Income Tax (L33 x L34)	\$ 45,041	\$ (9,490)	\$ 54,531	\$ 115,218	\$ 81,528	\$ 33,690
45	Federal Taxable Income (L33 - L35)	\$ 601,359	\$ (126,702)	\$ 728,061	\$ 1,538,313	\$ 1,088,503	\$ 449,810
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ -	\$ (7,500)	\$ 7,500	\$ 7,500		
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -	\$ (6,250)	\$ 6,250	\$ 6,250		
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	\$ (8,500)	\$ 8,500	\$ 8,500		
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 81,236	\$ (10,414)	\$ 91,650	\$ 91,650		
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 133,641	\$ -	\$ 133,641	\$ 409,126		
51	Total Federal Income Tax	\$ 214,877	\$ (32,664)	\$ 247,541	\$ 523,026	\$ 370,091	\$ 152,935
52	Combined Federal and State Income Tax (L35 + L42)	\$ 259,918	\$ (42,154)	\$ 302,072	\$ 638,244	\$ 451,619	\$ 186,626
53	COMBINED Applicable Federal Income Tax Rate [Col. (D), L51 - Col. (A), L51] / [Col. (D), L45 - Col. (A), L45]				32.8884%		
54	WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]					33.1429%	
55	WASTEWATER Applicable Federal Income Tax Rate [Col. (F), L51 - Col. (C), L51] / [Col. (F), L45 - Col. (C), L45]						34.0000%
<u>Calculation of Interest Synchronization:</u>							
56	Rate Base (Schedule GWB-3, Col. (C), Line 18)			N/A			
57	Weighted Average Cost of Debt			0.0000%			
58	Synchronized Interest (L45 X L46)			\$ -			

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 34,059,804	\$ -	\$ 34,059,804
2 Less: Accumulated Depreciation	12,472,661	(48,724)	12,423,937
3 Net Plant in Service	<u>\$ 21,587,143</u>	<u>\$ 48,724</u>	<u>\$ 21,635,867</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 20,188,921	\$ (48,724)	\$ 20,140,197
5 Less: Accumulated Amortization	6,628,197	-	6,628,197
6 Net CIAC	13,560,724	(48,724)	13,512,000
7 Advances in Aid of Construction (AIAC)	73,648	48,724	122,372
8 Imputed Reg AIAC	-	-	-
9 Imputed Reg CIAC	-	-	-
10 Deferred Income Tax Credits (Debits)	(778,203)	695,421	(82,782)
Customer Meter Deposits	275,455		275,455
<u>ADD:</u>			
11 Cash Working Capital		-	-
12 Prepayments		-	-
13 Supplies Inventory		-	-
14 Projected Capital Expenditures		-	-
15 Deferred Debits		-	-
16 Purchase Wastewater Treatment Charges	-	-	
17 <b>Original Cost Rate Base</b>	<u>\$ 8,455,519</u>	<u>\$ (646,697)</u>	<u>\$ 7,808,822</u>

References:

Column (A), Company Schedule B-2  
Column (B): Schedule GWB-4  
Column (C): Column (A) + Column (B)



SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 GWB-5	[C] ADJ #2 GWB-6 Not Used	[D] ADJ #3 GWB-7	[E] ADJ #4 GWB-8	[F] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>								
1	301	Organization Cost	5,785					\$ 5,785
2	302	Franchise Cost	417					417
3	303	Land and Land Rights	44,194					44,194
4	304	Structures and Improvements	2,732,833					2,732,833
5	305	Collecting and Impounding Res.	-					-
6	306	Lake River and Other Intakes	-					-
7	307	Wells and Springs	563,512					563,512
8	308	Infiltration Galleries and Tunnels	-					-
9	309	Supply Mains	279,154					279,154
10	310	Power Generation Equipment	197,120					197,120
11	311	Electric Pumping Equipment	2,591,971					2,591,971
12	320	Water Treatment Equipment	372,970	(372,970)				0
13	320.1	Water Treatment Equipment	-	372,970				372,970
14	320.2	Chemical Solution Feeders	-					-
15	330	Distribution Reservoirs & Standpipe	759,861	(759,861)				0
16	330.1	Storage tanks	-	759,861				759,861
17	330.2	Pressure Tanks	-					-
18	331	Transmission and Distribution Mains	22,089,150					22,089,150
19	333	Services	2,209,274	-				2,209,274
20	334	Meters	956,605					956,605
21	335	Hydrants	568,578					568,578
22	336	Backflow Prevention Devices	3,848					3,848
23	339	Other Plant and Miscellaneous Equipment	121,843					121,843
24	340	Office Furniture and Fixtures	22,986					22,986
25	340.1	Computers and Software	76,919					76,919
26	341	Transportation Equipment	218,945					218,945
27	342	Stores Equipment	-					-
28	343	Tools and Work Equipment	15,035					15,035
29	344	Laboratory Equipment	3,061					3,061
30	345	Power Operated Equipment	-					-
31	346	Communications Equipment	218,041					218,041
32	347	Miscellaneous Equipment	7,701					7,701
33	348	Other Tangible Plant	-					-
34								
35		<b>Total Plant in Service</b>	<u>34,059,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,059,804</u>
36								
37		Accumulated Depreciation	<u>12,472,661</u>	<u>(48,724)</u>				<u>12,423,937</u>
38		Net Plant in Service (L58 - L 59)	<u>\$ 21,587,143</u>	<u>\$ 48,724</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,635,867</u>
39								
40		<u>LESS:</u>						
41		Contributions in Aid of Construction (CIAC)	\$ 20,188,921				\$ (48,724)	\$ 20,140,197
42		Less: Accumulated Amortization	6,628,197	-	-			6,628,197
43		Net CIAC (L63 - L64)	13,560,724		-	-	(48,724)	13,512,000
44		Advances in Aid of Construction (AIAC)	73,648				48,724	122,372
45		Imputed Reg Advances	-	-	-		-	-
46		Imputed Reg CIAC	-	-	-		-	-
47		Deferred Income Tax Credits (Debits)	(778,203)	-	-	695,421	-	(82,782)
48		Customer Meter Deposits	275,455					275,455
49		<u>ADD:</u>						
50		Working Capital Allowance		-		-	-	-
51		Pumping Power		-	-	-	-	-
52		Purchase Wastewater Treatment Charges		-	-	-	-	-
53		Material and Supplies Inventory		-	-	-	-	-
54		Prepayments		-	-	-	-	-
55		Projected C	1847256	-	-	-	-	-
56		Deferred D	1983447.929	-	-	-	-	-
57		<b>Original Cost Rate Base</b>	<u>\$ 8,455,519</u>	<u>\$ 48,724</u>	<u>\$ -</u>	<u>\$ (695,421)</u>	<u>\$ -</u>	<u>\$ 7,808,822</u>

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-5  
SURREBUTTAL

RATE BASE ADJUSTMENT #1 - TO RECLASSIFY PLANT

LINE NO.	ACCT NO.	Description <u>Gross Additions</u>	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	320	Water Treatment Equipment	372,970	(372,970)	-
2	320.1	Water Treatment Equipment	-	372,970	372,970
3	330	Distribution Reservoirs & Standpipe	759,861	(759,861)	-
4	330.1	Storage tanks	-	759,861	759,861

References:

Column [A]: Amounts included in plant balances per filing.

Column (B): Per Testimony GWB

Column (C): Column [A] less Column [B]

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB- 6  
SURREBUTTAL

RATE BASE ADJUSTMENT #2 & SCHEDULE GWB-6 NOT USED

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB - 7  
SURREBUTTAL

RATE BASE ADJUSTMENT #3 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	At December 31, 2008	(778,203)	695,421	(82,782)
2		<u>\$ (778,203)</u>	<u>\$ 695,421</u>	<u>\$ (82,782)</u>

REFERENCES:

Columns [A]: Company schedules  
Column [B]: Column [C] less Column [A]  
Column [C]: See testimony GWB

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
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Schedule GWB-8  
SURREBUTTAL

**RATE BASE ADJUSTMENT #4 - ADVANCES IN AID OF CONSTRUCTION  
& CONTRIBUTIONS IN AID OF CONSTRUCTION**

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	AIAC		73,648	48,724	122,372
2	CIAC		20,188,921	(48,724)	20,140,197

References:

Column [A]: Amounts included in plant balances per filing.

Column (B): Per Testimony GWB

Column (C): Column [A] less Column [B]

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-9  
SURREBUTTAL

Schedule GWB-9 NOT USED

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$ 1,802,584	\$ -	\$ 1,802,584	\$ 1,327,271	\$ 3,129,855
2	Other Revenues	44,672	-	44,672	-	44,672
3	Other	-	-	-	-	-
4	<b>Total Operating Revenues</b>	<b>\$ 1,847,256</b>	<b>\$ -</b>	<b>\$ 1,847,256</b>	<b>\$ 1,327,271</b>	<b>\$ 3,174,527</b>
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	\$ -	-	-	-	\$ -
7	Purchased Power	\$ 441,501	(48,005)	393,496	-	\$ 393,496
8	Fuel for Power Production	\$ -	-	-	-	\$ -
9	Chemicals	\$ 9,347	-	9,347	-	\$ 9,347
10	Materials & Supplies	\$ 23,150	-	23,150	-	\$ 23,150
11	Outside Services	\$ 805,032	(95,067)	709,965	-	\$ 709,965
12	Outside Services- Other	\$ 76,859	(14,477)	62,382	-	\$ 62,382
13	Outside Services- Legal	\$ 487	-	487	-	\$ 487
14	Water Testing (incl in line 13)	\$ -	-	-	-	\$ -
15	Rents	\$ 26,954	-	26,954	-	\$ 26,954
16	Transportation Expenses	\$ 79,315	(6,725)	72,590	-	\$ 72,590
17	Insurance - General Liability	\$ 37,699	-	37,699	-	\$ 37,699
18	Insurance - Health and Life	\$ -	-	-	-	\$ -
19	Reg. Comm. Exp.	\$ 17,564	(17,564)	-	-	\$ -
20	Reg. Comm. Exp. - Rate Case	\$ 70,000	-	70,000	-	\$ 70,000
21	Miscellaneous Expense	\$ 14,822	-	14,822	-	\$ 14,822
22	Bad Debt Expense	\$ 371	-	371	-	\$ 371
23	Depreciation Expense	\$ 463,297	10,678	473,975	-	\$ 473,975
24	Taxes Other Than Income	\$ -	-	-	-	\$ -
25	Property Taxes	\$ 130,373	(42,163)	88,210	21,050	\$ 109,260
26	Income Tax	\$ (134,909)	92,755	(42,154)	493,772	\$ 451,619
27						
28	<b>Total Operating Expenses</b>	<b>\$ 2,061,862</b>	<b>(120,568)</b>	<b>1,941,294</b>	<b>514,822</b>	<b>\$ 2,456,116</b>
29	<b>Operating Income (Loss)</b>	<b>\$ (214,606)</b>	<b>\$ 120,568</b>	<b>\$ (94,038)</b>	<b>\$ 812,449</b>	<b>\$ 718,411</b>

References:

Column (A): Company Schedule C-1  
Column (B): Schedule GWB 11  
Column (C): Column (A) + Column (B)  
Column (D): Schedules GWB 2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Purchased Power ADJ #1 GWB-12	[C] Depreciation Exp. ADJ #2 GWB-13	[D] Rate Case Exp ADJ #3 GWB-14	[E] Property Taxes ADJ #4 GWB-15	[F] Income Taxes ADJ #5 GWB-16	[G] NOT USED ADJ #6 GWB-17	[H] Out of Period ADJ #7 GWB-18	[I] NOT USED ADJ #8 GWB-19	[J] Corporate Exp ADJ #9 GWB-20	[K] Trans. Exp ADJ #10 GWB-21	[L] STAFF ADJUSTED
1													
2	Water Revenues	\$ 1,802,584	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,802,584
3	Other Revenues	44,672	-	-	-	-	-	-	-	-	-	-	\$ 44,672
4	Other	-	-	-	-	-	-	-	-	-	-	-	\$ -
5	<b>Total Operating Revenues</b>	<b>\$ 1,847,256</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,847,256</b>
6	Salaries and Wages	-	-	-	-	-	-	-	-	-	-	-	-
7	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -	-
8	Purchased Power	441,501	(48,005)	-	-	-	-	-	-	-	-	-	393,496
9	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-	-	-
10	Chemicals	9,347	-	-	-	-	-	-	-	-	-	-	9,347
11	Materials & Supplies	23,150	-	-	-	-	-	-	-	-	-	-	23,150
12	Outside Services	805,032	-	-	-	-	-	-	-	-	(95,067)	-	709,965
13	Outside Services- Other	78,859	-	-	-	-	-	-	(14,477)	-	-	-	62,382
14	Outside Services- Legal	487	-	-	-	-	-	-	-	-	-	-	487
15	Water Testing (incl in line 13)	-	-	-	-	-	-	-	-	-	-	-	-
16	Rents	26,954	-	-	-	-	-	-	-	-	-	-	26,954
17	Transportation Expenses	79,315	-	-	-	-	-	-	-	-	-	(6,725)	72,590
18	Insurance - General Liability	37,699	-	-	-	-	-	-	-	-	-	-	37,699
19	Insurance - Health and Life	-	-	-	-	-	-	-	-	-	-	-	-
20	Reg. Comm. Exp.	17,564	-	-	(17,564)	-	-	-	-	-	-	-	-
21	Reg. Comm. Exp. - Rate Case	70,000	-	-	-	-	-	-	-	-	-	-	70,000
22	Miscellaneous Expense	14,822	-	-	-	-	-	-	-	-	-	-	14,822
23	Bad Debt Expense	371	-	-	-	-	-	-	-	-	-	-	371
24	Depreciation Expense	463,297	-	10,678	-	-	-	-	-	-	-	-	473,975
25	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-	-	-
26	Property Taxes	130,373	-	-	-	(42,163)	-	-	-	-	-	-	88,210
27	Income Tax	(134,909)	-	-	-	-	92,755	-	-	-	-	-	(42,154)
28													
29													
30	<b>Total Operating Expenses</b>	<b>\$ 2,061,862</b>	<b>\$ (48,005)</b>	<b>\$ 10,678</b>	<b>\$ (17,564)</b>	<b>\$ (42,163)</b>	<b>\$ 92,755</b>	<b>\$ -</b>	<b>\$ (14,477)</b>	<b>\$ -</b>	<b>\$ (95,067)</b>	<b>\$ (6,725)</b>	<b>\$ 1,941,294</b>
31	<b>Operating Income (Loss)</b>	<b>\$ (214,606)</b>	<b>\$ 48,005</b>	<b>\$ (10,678)</b>	<b>\$ 17,564</b>	<b>\$ 42,163</b>	<b>\$ (92,755)</b>	<b>\$ -</b>	<b>\$ 14,477</b>	<b>\$ -</b>	<b>\$ 95,067</b>	<b>\$ 6,725</b>	<b>\$ (94,038)</b>



RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-12  
SURREBUTTAL

**OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER FROM WASTEWATER**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
8	Purchased Power	<u>\$ 441,501</u>	<u>\$ (48,005)</u>	<u>\$ 393,496</u>

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	301	Organization Cost	5,785	0.00%	-
3	302	Franchise Cost	417	0.00%	-
4	303	Land and Land Rights	44,194	0.00%	-
5	304	Structures and Improvements	2,732,833	3.33%	91,003
6	305	Collecting and Impounding Res.	-	2.50%	-
7	306	Lake River and Other Intakes	-	2.50%	-
8	307	Wells and Springs	563,512	3.33%	18,765
9	308	Infiltration Galleries and Tunnels	-	6.67%	-
10	309	Supply Mains	279,154	2.00%	5,583
11	310	Power Generation Equipment	197,120	5.00%	9,856
12	311	Electric Pumping Equipment	2,591,971	12.50%	323,996
13	320.0	Water Treatment Equipment	0	3.33%	0
14	320.1	Water Treatment Equipment	372,970	3.33%	12,420
15	320	Chemical Solution Feeders	-	0.00%	-
16	330.0	Distribution Reservoirs & Standpipe	0	0.00%	-
17	330.1	Storage tanks	759,861	2.22%	16,869
18	330.2	Pressure Tanks	-	5.00%	-
19	331	Transmission and Distribution Mains	22,089,150	2.00%	441,783
20	333	Services	2,209,274	3.33%	73,569
21	334	Meters	956,605	8.33%	79,685
22	335	Hydrants	568,578	2.00%	11,372
23	336	Backflow Prevention Devices	3,848	6.67%	257
24	339	Other Plant and Miscellaneous Equipment	121,843	6.67%	8,127
25	340.0	Office Furniture and Fixtures	22,986	6.67%	1,533
26	340.1	Computers and Software	76,919	20.00%	-
27	341	Transportation Equipment	218,945	20.00%	43,789
28	342	Stores Equipment	-	4.00%	-
29	343	Tools and Work Equipment	15,035	5.00%	752
30	344	Laboratory Equipment	3,061	10.00%	306
31	345	Power Operated Equipment	-	5.00%	-
32	346	Communications Equipment	218,041	10.00%	21,804
33	347	Miscellaneous Equipment	7,701	10.00%	770
34	348	Other Tangible Plant	-	0.00%	-
35		<b>Total Plant in Service</b>	<b>34,059,804</b>		<b>1,162,239</b>
36					
37					
38		Less Non Depreciable Plant			
39	301.00	Organization Cost	5,785	0.00%	-
40	303.00	Land and Land Rights	44,194	0.00%	-
41	306.00	Lake River and Other Intakes	-	0.00%	-
42					
43		Net Depreciable Plant and Depreciation Amounts	\$ 34,009,825		\$ 1,162,239
44		Composite Depreciation Rate		3.4174%	
45		Less			
46		Amortization of Regulatory CIAC at Settlement Rate			-
47		Amortization of CIAC at Composite Rate	\$ 20,140,197		\$ 688,263
48		Staff Recommended Depreciation Expense			\$ 473,975
49		Company Proposed Depreciation Expense			463,297
50		Staff Adjustment			\$ 10,678

References:

Col A Schedule GWB-4  
Col B Rate per Engineering Report  
Col C Col A time Col B

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-14  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rate Case Expense	\$ 17,564	\$ (17,564)	\$ -

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,847,256	\$ 1,847,256
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,694,512	3,694,512
4	Staff Recommended Revenue	1,847,256	3,174,527
5	Subtotal (Line 4 + Line 5)	5,541,768	6,869,039
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,847,256	2,289,680
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,694,512	4,579,359
10	Plus: 10% of CWIP - 2005	13,454	13,454
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,707,966	4,592,813
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	778,673	964,491
15	Composite Property Tax Rate - Obtained from ADOR	11.33%	11.33%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 88,210	
17	Company Proposed Property Tax	\$ 130,373	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (42,163)	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 109,260
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 88,210
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 21,050
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ 21,050
23	Increase in Revenue Requirement		\$ 1,327,271
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.58596%

REFERENCES:

0

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 27  
Line 21: Line 19 - Line 20  
Line 23: Schedule GWB-1, Line 8

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-16  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE	ACCT		[A] COMPANY	[B] STAFF	[C] STAFF
NO.	NO.	DESCRIPTION	PROPOSED	ADJUSTMENTS	RECOMMENDED
1		Income Taxes	\$ (134,909)	\$ 92,755	\$ (42,154)

References:

Column (A): Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

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Schedule GWB-17  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #6 & SCHEDULE GWB-17 NOT USED

RIO RICO UTILITIES, INC. WATER DIVISION  
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Schedule GWB-18  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #7 - OUT OF PERIOD EXPENSE

LINE	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Outside Services- Other	\$ 14,477	\$ (14,477)	\$ -

References:

Column (A), Company Schedule C-2

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

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Schedule GWB-19  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #8 & SCHEDULE GWB-19 NOT USED



OPERATING INCOME ADJUSTMENT #9 - CORPORATE EXPENSE ALLOCATION

LINE NO.		[A] Corporate Costs As Filed Total Budget 2008	[B] Per DR 4.2 Total Actual \$ 2,008	[C] Rio Rico Total Budget 2008	[D] Total Actual 2008					
1	Audit	507,000	1,021,609	17,672	35,608					
2	Tax Services	265,000	322,446	9,237	11,239					
3	Legal	300,000	767,451	10,457	26,750					
4	Other Professional Services	455,000	565,649	15,859	22,404					
5	Management Fee - Total	636,619	642,771	22,190	10,101					
6	Unit Holder Communications	314,100	289,796	10,948	4,496					
7	Trustee Fees	204,000	129,000	7,110	4,496					
8	Escrow & Transfer Agent Fees	75,000	71,366	2,614	2,487					
9	Rent	430,739	299,586	15,014	10,442					
10	Licenses/Fees & Permits	305,000	140,852	10,631	4,909					
11	Office Expenses	254,000	808,101	8,853	28,167					
12	Depreciation	204,242	211,253	7,119	7,363					
13										
14	Total Admin Costs	3,950,700	5,269,882	137,703	168,464					
15										
16	Variance from Budget		1,319,182		30,761					
17										
18	Total Amount Charged in case		137,703							
19										
20	Percentage		3.49%							
21										
22										
23										
24		[E] Total Actuals 2008	[F] Disallowance Amount	[G] Costs Allocable to APIF	[H] Allowable Common costs to 70 Companies	[I] Allocation (1/70)	[J] Cost to be Allocated to Rio Rico	[K] Amount in Filing	[L] Adjustment	Note
25										
26	Staff Disallowances									
27	Audit	1,021,609	-	(919,448)	91,945	1.43%	1,313	17,672	(16,358)	
28	Tax Services	322,446	190,849	(118,437)	11,844	1.43%	169	9,237	(9,067)	(1)
29	Legal	767,451	10,457	(681,295)	68,130	1.43%	973	10,457	(9,483)	(2)
30	Other Professional Services	565,649	-	(565,649)	-	1.43%	-	15,859	(15,859)	(3)
31	Management Fee - Total	642,771	-	(642,771)	-	1.43%	-	22,190	(22,190)	
32	Unit Holder Communications	289,796	-	(289,796)	-	1.43%	-	10,948	(10,948)	
33	Trustee Fees	129,000	-	(129,000)	-	1.43%	-	7,110	(7,110)	
34	Escrow & Transfer Agent Fees	71,366	-	(71,366)	-	1.43%	-	2,614	(2,614)	
35	Rent	299,586	-	(299,586)	-	1.43%	-	15,014	(15,014)	
36	Licenses/Fees & Permits	140,852	140,852	(0)	-	1.43%	-	10,631	(10,631)	(4)
37	Office Expenses	808,101	-	(808,101)	-	1.43%	-	8,853	(8,853)	
38	Depreciation	211,253	-	(190,128)	19,013	1.43%	272	7,119	(6,847)	
39										
40	Total Admin Costs	5,269,882	342,158	(4,715,579)	190,931		2,728	137,703	(134,975)	
41										
42							Currency Adj.		(7,829)	
43							US Dollars		(127,147)	
44	References:									
45	Column (A), Company Schedule C-2 Based on \$3.95 M						Staff	Can \$	US \$	
46	Column (B): Company Response to DR GWB 4.2 Based on \$5.27 M				Restated amounts:		Recomm.	Adjustment	Adj.	
47	Column (C): Company's Original Estimate of allocated cost,				Water	102,960	2,039	(100,921)	(95,067)	
48	based on Budget, per filing				Wastewater	34,747	688	(34,059)	(32,083)	
49	Column (D): Company's Revised Original Estimate of allocated costs,				Total	137,707	2,728	(134,979)	(127,150)	
50	based on 2008 Actuals, per Company Response to DR GWB 4.2									
51	Column (E), Staff Recommended Disallowance				Per Direct Testimony:					
52	Column (F), Company Revised amount subject to allocation,				Water	102,960	1,363	(101,597)	(95,704)	
53	less Staff Recommended disallowance				Wastewater	34,747	460	(34,287)	(32,298)	
54	Column (G), Per testimony GWB, Staff's estimate of common				Total	137,707	1,823	(135,884)	(128,002)	
55	costs benefitting unregulated parties									
56	Column (H): Rio Rico is 1 of 70 companies held by the parent (APIF)				Adjustment to be made					
57	Column (I): Total amount allocable to Infrastructure				in Surrebuttal :		Can \$	US \$		
58	Column (J): Per Company response to Staff DR 4.2, Based on Budget Amounts				Water	102,960	676	637		
59	Column (K): Total amount allocable to Infrastructure				Wastewater	34,747	228	215		
60					Total	137,707	904	852		
61	Note:									
62	(1) Cost specific to Canadian Tax Service				Note: At 'the last minute', Staff noted a minor computational error whereby the allocations					
63	(2) No indication on ledger that costs benefitted AZ				to Water and Wastewater should have been \$2,039 and \$688, respectively, for a total of \$2,728,					
64	(3) This account is used mostly for business development				instead of the \$1,363 and \$460, respectively, for a total of \$1,823 used in Staff Direct Testimony,					
65	(4) Account used for charity, enertainment, etc				for differences of \$676 and \$228, respectively, and a total difference of \$904 (all in Can dollars)					
					The net adjustment, or increase to expenses is \$852 in US dollars, which is					
					not considered material but will be corrected in the surrebuttal testimony.					

	As Filed	Staff Recomm.	Can \$ Adjustment	US \$ Adj.
Restated amounts:				
Water	102,960	2,039	(100,921)	(95,067)
Wastewater	34,747	688	(34,059)	(32,083)
Total	137,707	2,728	(134,979)	(127,150)
Per Direct Testimony:				
Water	102,960	1,363	(101,597)	(95,704)
Wastewater	34,747	460	(34,287)	(32,298)
Total	137,707	1,823	(135,884)	(128,002)
Adjustment to be made in Surrebuttal :				
Water	102,960	676	637	
Wastewater	34,747	228	215	
Total	137,707	904	852	

Note: At 'the last minute', Staff noted a minor computational error whereby the allocations to Water and Wastewater should have been \$2,039 and \$688, respectively, for a total of \$2,728, instead of the \$1,363 and \$460, respectively, for a total of \$1,823 used in Staff Direct Testimony, for differences of \$676 and \$228, respectively, and a total difference of \$904 (all in Can dollars). The net adjustment, or increase to expenses is \$852 in US dollars, which is not considered material but will be corrected in the surrebuttal testimony.

RIO RICO UTILITIES, INC. WATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-21  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #10 - TRANSPORTATION EXPENSE

LINE	ACCT NO.	NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1			Transportation Expenses	\$ 79,315	\$ (6,725)	\$ 72,590

References:

Column (A): Company Schedule C-2

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

**RIO RICO UTILITIES, INC. WASTEWATER DIVISION**

Docket No. WS-02676A-09-0257

Test Year Ended December 31, 2008

**SURREBUTTAL TESTIMONY OF GERALD BECKER**

TABLE OF CONTENTS TO SCHEDULES :

<u>SCH #</u>	<u>TITLE</u>
GWB- 1	REVENUE REQUIREMENT
GWB- 2	GROSS REVENUE CONVERSION FACTOR
GWB- 3	RATE BASE - ORIGINAL COST
GWB- 4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB- 5	RATE BASE ADJUSTMENT #1 - ACCUMULATED DEFERRED INCOME TAXES
GWB- 6	RATE BASE ADJUSTMENT #2 - ADVANCES IN AID OF CONSTRUCTION & CONTRIBUTIONS IN AID OF CONSTRUCTION
GWB- 7	Not Used
GWB- 8	Not Used
GWB- 9	Not Used
GWB- 10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB- 11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB- 12	OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER TO WATER
GWB- 13	OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE
GWB- 14	OPERATING INCOME ADJUSTMENT #3 - NOT USED
GWB- 15	OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE
GWB- 16	OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES
GWB- 17	OPERATING INCOME ADJUSTMENT #6 - RATE CASE EXPENSE
GWB- 18	OPERATING INCOME ADJUSTMENT #7 - CORPORATE EXPENSE ALLOCATION
GWB- 19	OPERATING INCOME ADJUSTMENT #8 - TRANSPORTATION EXPENSE

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-1  
SURREBUTTAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,516,077	\$ 3,516,077	\$ 3,226,899	\$ 3,226,899
2	Adjusted Operating Income (Loss)	\$ 490,676	\$ 490,676	\$ 480,520	\$ 480,520
3	Current Rate of Return (L2 / L1)	13.96%	13.96%	14.89%	14.89%
4	Required Rate of Return	12.40%	12.40%	9.20%	9.20%
5	Required Operating Income (L4 * L1)	\$ 435,994	\$ 435,994	\$ 296,875	\$ 296,875
6	Operating Income Deficiency (L5 - L2)	\$ (54,683)	\$ (54,683)	\$ (183,646)	\$ (183,646)
7	Gross Revenue Conversion Factor	1.6286	1.6286	1.6549	1.6549
8	Required Revenue Increase (L7 * L6)	\$ (89,061)	\$ (89,061)	<b>\$ (303,912)</b>	<b>\$ (303,912)</b>
9	Adjusted Test Year Revenue	\$ 1,829,976	\$ 1,829,976	\$ 1,829,976	\$ 1,829,976
10	Proposed Annual Revenue (L8 + L9)	\$ 1,740,915	\$ 1,740,915	\$ 1,526,064	\$ 1,526,064
11	Required Increase in Revenue (%)	-4.87%	-4.87%	-16.61%	-16.61%
12	Rate of Return on Common Equity (%)	12.40%	12.40%	9.20%	9.20%

References:

Column [A]: Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
----------	-------------	-----	-----	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor (Line 11)	0.0000%
3	Revenues (L1 - L2)	100.0000%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.5727%
5	Subtotal (L3 - L4)	60.4273%
6	Revenue Conversion Factor (L1 / L5)	1.654881

Calculation of Uncollectible Factor:

7	Unity	100.0000%
8	Combined Federal and State Tax Rate (Line 17)	38.5989%
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%
10	Uncollectible Rate	0.0000%
11	Uncollectible Factor (L9 * L10)	0.0000%

Calculation of Effective Tax Rate:

12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
13	Arizona State Income Tax Rate	6.9680%
14	Federal Taxable Income (L12 - L13)	93.0320%
15	Applicable Federal Income Tax Rate (Line 44)	34.0000%
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%
17	Combined Federal and State Income Tax Rate (L13 + L16)	38.5989%

Calculation of Effective Property Tax Factor

18	Unity	100.0000%
19	Combined Federal and State Income Tax Rate (L17)	38.5989%
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%
21	Property Tax Factor (GTM-14, L24)	1.5860%
22	Effective Property Tax Factor (L20*L21)	0.9738%
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)	39.5727%

24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 296,875
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ 480,520
26	Required Increase in Operating Income (L24 - L25)	\$ (183,646)
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 186,626
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 302,072
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)	\$ (115,446)
30	Recommended Revenue Requirement (Schedule GWB-1, Line 10)	\$ 1,526,064
31	Uncollectible Rate (Line 10)	0.0000%
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -
33	Adjusted Test Year Uncollectible Expense	\$ -
34	Required Increase in Revenue to Provide for Uncollectible Exp.	\$ -
35	Property Tax with Recommended Revenue (GTM-15, 20)	\$ 82,248
36	Property Tax on Test Year Revenue (GTM-15, Col A, L16)	\$ 87,068
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)	\$ (4,820)
38	Total Required Increase in Revenue (L26 + L29 + L37)	\$ (303,912)

Calculation of Income Tax:

39	Revenue (Sch GWB-9, Col.(C) L5, GWB-1, Col. (D), L9)	\$ 3,677,232
40	Operating Expenses Excluding Income Taxes	\$ 3,030,832
41	Synchronized Interest (L47)	\$ -
42	Arizona Taxable Income (L30 - L31 - L32)	\$ 646,400
43	Arizona State Income Tax Rate	6.9680%
44	Arizona Income Tax (L33 x L34)	\$ 45,041
45	Federal Taxable Income (L33 - L35)	\$ 601,359
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ -
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 81,236
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 133,641
51	Total Federal Income Tax	\$ 214,877
52	Combined Federal and State Income Tax (L35 + L42)	\$ 259,918

(A)	(B)	(C)
Total	Test Year	Rio Rico WW
\$ 3,677,232	\$ 1,847,256	\$ 1,829,976
\$ 3,030,832	\$ 1,983,448	\$ 1,047,384
\$ -	\$ -	\$ -
\$ 646,400	\$ (136,192)	\$ 782,592
6.9680%	6.9680%	6.9680%
\$ 45,041	\$ (9,490)	\$ 54,531
\$ 601,359	\$ (126,702)	\$ 728,061
\$ -	\$ (7,500)	\$ 7,500
\$ -	\$ (6,250)	\$ 6,250
\$ -	\$ (8,500)	\$ 8,500
\$ 81,236	\$ (10,414)	\$ 91,650
\$ 133,641	\$ -	\$ 133,641
\$ 214,877	\$ (32,664)	\$ 247,541
\$ 259,918	\$ (42,154)	\$ 302,072

(D)	(E)	(F)
Total	Staff Recommended	Rio Rico WW
\$ 4,700,591	\$ 3,174,527	\$ 1,526,064
\$ 3,047,062	\$ 2,004,498	\$ 1,042,564
\$ -	\$ -	\$ -
\$ 1,653,530	\$ 1,170,029	\$ 483,500
6.9680%	6.9680%	6.9680%
\$ 115,218	\$ 81,528	\$ 33,690
\$ 1,538,312	\$ 1,088,502	\$ 449,810
\$ 7,500	\$ -	\$ -
\$ 6,250	\$ -	\$ -
\$ 8,500	\$ -	\$ -
\$ 91,650	\$ -	\$ -
\$ 409,126	\$ -	\$ -
\$ 523,026	\$ 370,091	\$ 152,935
\$ 638,244	\$ 451,518	\$ 186,626

32.8884%

33.1430%

34.0000%

Effective Tax Rate

53  
54  
55

Calculation of Interest Synchronization:

56	Rate Base (Schedule GWB-3, Col. (C), Line 18)	\$ -
57	Weighted Average Cost of Debt	0.0000%
58	Synchronized Interest (L45 X L46)	\$ -

N/A
\$ -
0.0000%
\$ -

**RATE BASE - ORIGINAL COST**

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 11,829,041	\$ -	\$ 11,829,041
2	Less: Accumulated Depreciation	5,110,028	-	5,110,028
3	Net Plant in Service	<u>\$ 6,719,013</u>	<u>\$ -</u>	<u>\$ 6,719,013</u>
	<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 5,376,456	\$ (238,782)	\$ 5,137,674
5	Less: Accumulated Amortization	1,944,057	-	1,944,057
6	Net CIAC	<u>3,432,399</u>	<u>(238,782)</u>	<u>3,193,617</u>
7	Advances in Aid of Construction (AIAC)	(861)	238,782	237,921
8	Imputed Reg AIAC	-	-	-
9	Imputed Reg CIAC	-	-	-
10	Deferred Income Tax Credits (Debits)	(323,602)	289,179	(34,423)
	Customer Meter Deposits	95,000		95,000
	<u>ADD:</u>			
11	Cash Working Capital	-	-	-
12	Prepayments	-	-	-
13	Supplies Inventory	-	-	-
14	Projected Capital Expenditures	-	-	-
15	Deferred Debits	-	-	-
16	Purchase Wastewater Treatment Charges	-	-	-
17	<b>Original Cost Rate Base</b>	<u>\$ 3,516,077</u>	<u>\$ (289,179)</u>	<u>\$ 3,226,899</u>

References:

Column (A), Company Schedule B-2  
Column (B): Schedule GWB-4  
Column (C): Column (A) + Column (B)

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-4  
SURREBUTTAL

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 GWB-5	[C] ADJ #2 GWB-6	[D] ADJ #3	[F] STAFF ADJUSTED
		<u>PLANT IN SERVICE:</u>					
1	351	Organization	5,785				\$ 5,785
2	352	Franchises	417				\$ 417
3	353	Land	7,545				\$ 7,545
4	354	Structures & Improvements	28,548				\$ 28,548
5	355	Power Generation	-				\$ -
6	360	Collection Sewer Forced	636,023				\$ 636,023
7	361	Collection Sewers Gravity	5,945,962				\$ 5,945,962
8	362	Special Collecting Structures	-				\$ -
9	363	Customer Services	1,145,530				\$ 1,145,530
10	364	Flow Measuring Devices	55,988				\$ 55,988
11	365	Flow Measuring Installation	-				\$ -
12	366	Reuse Services	-				\$ -
13	367	Reuse Meters And Installation	-				\$ -
14	370	Receiving Wells	867,120				\$ 867,120
15	371	Pumping Equipment	1,504,181				\$ 1,504,181
16	374	Reuse Distribution Reservoirs	-				\$ -
17	375	Reuse Trans. and Dist. System	-				\$ -
18	380	Treatment & Disposal Equipment	1,006,848				\$ 1,006,848
19	381	Plant Sewers	-				\$ -
20	382	Outfall Sewer Lines	-				\$ -
21	389	Other Sewer Plant & Equipment	68,869				\$ 68,869
22	390	Office Furniture & Equipment	110,454				\$ 110,454
23	390.1	Computers and Software	4,025				\$ 4,025
24	391	Transportation Equipment	-				\$ -
25	392	Stores Equipment	-				\$ -
26	393	Tools, Shop And Garage Equip	4,897				\$ 4,897
27	394	Laboratory Equip	-				\$ -
28	396	Communication Equip	5,936				\$ 5,936
29	398	Other Tangible Plant	3,913				\$ 3,913
30	398	Nogales WW Trmnt Capacity	427,000				\$ 427,000
31							\$ -
32		<b>Total Plant in Service</b>	<u>11,829,041</u>	<u>-</u>	<u>-</u>	<u>-</u>	\$ 11,829,041
33							
34		Accumulated Depreciation	5,110,028				5,110,028
35		Net Plant in Service (L58 - L 59)	<u>\$ 6,719,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,719,013</u>
36							
37		<u>LESS:</u>					
38		Contributions in Aid of Construction (CIAC)	\$ 5,376,456		\$ (238,782)		\$ 5,137,674
39		Less: Accumulated Amortization	1,944,057	-	-		1,944,057
40		Net CIAC (L63 - L64)	3,432,399	-	(238,782)	-	3,193,617
41		Advances in Aid of Construction (AIAC)	(861)	-	238,782	-	237,921
42		Imputed Reg Advances	-	-	-	-	-
43		Imputed Reg CIAC	-	-	-	-	-
44		Deferred Income Tax Credits (Debits)	(323,602)	289,179	-	-	(34,423)
45		Customer Meter Deposits	95,000				95,000
46		<u>ADD:</u>					
47		Working Capital Allowance	-	-	-	-	-
48		Pumping Power	-	-	-	-	-
49		Purchase Wastewater Treatment Charges	-	-	-	-	-
50		Material and Supplies Inventory	-	-	-	-	-
51		Prepayments	-	-	-	-	-
52		Projected Capital Expenditures	-	-	-	-	-
53		Deferred Debits	-	-	-	-	-
54		<b>Original Cost Rate Base</b>	<u>\$ 3,516,077</u>	<u>\$ (289,179)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,226,899</u>

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB- 5  
SURREBUTTAL

RATE BASE ADJUSTMENT #1 - ACCUMULATED DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	At December 31, 2008	(323,602)	289,179	(34,423)
2		<u>\$ (323,602)</u>	<u>\$ 289,179</u>	<u>\$ (612,781)</u>

REFERENCES:

Columns [A]: Company schedules  
Column [B]: Column [C] less Column [A]  
Column [C]: See testimony GWB



RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
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Schedule GWB - 6  
SURREBUTTAL

**RATE BASE ADJUSTMENT #2 - ADVANCES IN AID OF CONSTRUCTION**

LINE NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	AIAC	(861)	238,782	237,921
2	CIAC	5,376,456	(238,782)	5,137,674

References:

Column [A]: Amounts included in plant balances per filing.

Column (B): Per Testimony GWB

Column (C): Column [A] less Column [B]

**RIO RICO UTILITIES, INC. WASTEWATER DIVISION**  
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**Test Year Ended December 31, 2008**

Schedules GWB - 7, 8, & 9  
SURREBUTTAL

Schedules GWB-7, -8, & -9 are not used

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$ 1,829,726	\$ -	\$ 1,829,726	\$ (303,912)	\$ 1,525,814
2	Other Revenues	250	-	250	-	250
3	Other	-	-	-	-	-
4	<b>Total Operating Revenues</b>	<b>\$ 1,829,976</b>	<b>\$ -</b>	<b>\$ 1,829,976</b>	<b>\$ (303,912)</b>	<b>\$ 1,526,064</b>
5	Salaries and Wages	\$ -	\$ -	-	\$ -	\$ -
6	Purchased Water and WW Treatment	\$ -	-	-	-	\$ -
7	Sludge Removal Expense	\$ -	-	-	-	\$ -
8	Purchased Power	\$ 17,426	48,005	65,431	-	\$ 65,431
9	Fuel for Power Production	\$ -	-	-	-	\$ -
10	Chemicals	\$ 9,644	-	9,644	-	\$ 9,644
11	Materials and Supplies	\$ 14,304	-	14,304	-	\$ 14,304
12	Contractual Services	\$ 298,008	(32,083)	265,925	-	\$ 265,925
13	Contractual Services- Testing	\$ -	-	-	-	\$ -
14	Contractual Services - Other	\$ 175,196	-	175,196	-	\$ 175,196
15	Contractual Services - Legal	\$ 367	-	367	-	\$ 367
16	Equipment Rental	\$ 25,781	-	25,781	-	\$ 25,781
17	Rents - Building	\$ -	-	-	-	\$ -
18	Transportation Expenses	\$ 26,817	(2,242)	24,575	-	\$ 24,575
19	Insurance - General Liability	\$ 12,021	-	12,021	-	\$ 12,021
20	Insurance - Vehicle	\$ -	-	-	-	\$ -
21	Regulatory Commission Expense	\$ 994	(994)	-	-	\$ -
22	Reg. Comm. Exp. - Rate Case	\$ 41,667	-	41,667	-	\$ 41,667
23	Miscellaneous Expense	\$ 155	-	155	-	\$ 155
24	Bad Debt Expense	\$ 64,087	-	64,087	-	\$ 64,087
25	Depreciation and Amortization	\$ 252,672	8,491	261,163	-	\$ 261,163
26	Taxes Other Than Income	\$ -	-	-	-	\$ -
27	Property Taxes	\$ 91,705	(4,637)	87,068	(4,820)	\$ 82,248
28	Income Tax	\$ 308,456	(6,384)	302,072	(115,446)	\$ 186,626
29						
30	<b>Total Operating Expenses</b>	<b>\$ 1,339,300</b>	<b>10,156</b>	<b>1,349,456</b>	<b>(120,266)</b>	<b>\$ 1,229,189</b>
31	<b>Operating Income (Loss)</b>	<b>\$ 490,676</b>	<b>\$ (10,156)</b>	<b>\$ 480,520</b>	<b>\$ (183,646)</b>	<b>\$ 296,875</b>

References:

Column (A): Company Schedule C-1

Column (B): Schedule GWB 11

Column (C): Column (A) + Column (B)

Column (D): Schedules GWB 2, Lines 29 and 37

Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Purchased Power ADJ #1 GWB-12	[C] Depreciation Exp. ADJ #2 GWB-13	[D] Foreign Exchange ADJ #3 GWB-12	[E] Property Taxes ADJ #4 GWB-15	[F] Income Taxes ADJ #5 GWB-16	[G] Rate Case ADJ #6 GWB-17	[H] Corporate Allocation ADJ #7 GWB-18	[I] Trans Exp. ADJ #8 GWB-19	[J] STAFF ADJUSTED
1	Water Revenues	\$ 1,829,726	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,726
2	Other Revenues	250	-	-	-	-	-	-	-	-	250
3	Other	-	-	-	-	-	-	-	-	-	-
4	Total Operating Revenues	\$ 1,829,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,829,976
5	Salaries and Wages	-	-	-	-	-	-	-	-	-	-
6	Purchased Water and WW Treatment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
7	Sludge Removal Expense	-	-	-	-	-	-	-	-	-	-
8	Purchased Power	17,426	48,005	-	-	-	-	-	-	-	65,431
9	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
10	Chemicals	9,644	-	-	-	-	-	-	-	-	9,644
11	Materials and Supplies	14,304	-	-	-	-	-	-	-	-	14,304
12	Contractual Services	298,008	-	-	-	-	-	-	(32,083)	-	265,925
13	Contractual Services- Testing	-	-	-	-	-	-	-	-	-	-
14	Contractual Services - Other	175,196	-	-	-	-	-	-	-	-	175,196
15	Contractual Services - Legal	367	-	-	-	-	-	-	-	-	367
16	Equipment Rental	25,781	-	-	-	-	-	-	-	-	25,781
17	Rents - Building	-	-	-	-	-	-	-	-	-	-
18	Transportation Expenses	26,817	-	-	-	-	-	-	-	(2,242)	24,575
19	Insurance - General Liability	12,021	-	-	-	-	-	-	-	-	12,021
20	Insurance - Vehicle	-	-	-	-	-	-	-	-	-	-
21	Regulatory Commission Expense	994	-	-	-	-	-	(994)	-	-	-
22	Reg. Comm. Exp. - Rate Case	41,667	-	-	-	-	-	-	-	-	41,667
23	Miscellaneous Expense	155	-	-	-	-	-	-	-	-	155
24	Bad Debt Expense	64,087	-	-	-	-	-	-	-	-	64,087
25	Depreciation and Amortization	252,672	-	8,491	-	-	-	-	-	-	261,163
26	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-
27	Property Taxes	91,705	-	-	-	(4,637)	-	-	-	-	87,068
28	Income Taxes	308,456	-	-	-	-	(6,384)	-	-	-	302,072
29											
30											
31	Total Operating Expenses	\$ 1,339,300	\$ 48,005	\$ 8,491	\$ -	\$ (4,637)	\$ (6,384)	\$ (994)	\$ (32,083)	\$ (2,242)	\$ 1,349,456
32	Operating Income (Loss)	\$ 490,676	\$ (48,005)	\$ (8,491)	\$ -	\$ 4,637	\$ 6,384	\$ 994	\$ 32,083	\$ 2,242	\$ 480,520

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
Docket No. WS-02676A-09-0257  
Test Year Ended December 31, 2008

Schedule GWB-12  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #1 - RECLASSIFY POWER TO WATER

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Power	<u>\$ 17,426</u>	<u>\$ 48,005</u>	<u>\$ 65,431</u>

References:

Column (A), Company Schedule C-1  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #2- DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] DEPRECIATION RATE	[C] DEPRECIATION EXPENSE
1		<u>PLANT IN SERVICE:</u>			
2	351	Organization	5,785	0.00%	-
3	352	Franchises	417	0.00%	-
4	353	Land	7,545	0.00%	-
5	354	Structures & Improvements	28,548	3.33%	951
6	355	Power Generation	-	5.00%	-
7	360	Collection Sewer Forced	636,023	2.00%	12,720
8	361	Collection Sewers Gravity	5,945,962	2.00%	118,919
9	362	Special Collecting Structures	-	2.00%	-
10	363	Customer Services	1,145,530	2.00%	22,911
11	364	Flow Measuring Devices	55,988	10.00%	5,599
12	365	Flow Measuring Installation	-	10.00%	-
13	366	Reuse Services	-	2.00%	-
14	367	Reuse Meters And Installation	-	8.33%	-
15	370	Receiving Wells	867,120	3.33%	28,875
16	371	Pumping Equipment	1,504,181	12.50%	188,023
17	374	Reuse Distribution Reservoirs	-	2.50%	-
18	375	Reuse Trans. and Dist. System	-	2.50%	-
19	380	Treatment & Disposal Equipment	1,006,848	5.00%	50,342
20	381	Plant Sewers	-	5.00%	-
21	382	Outfall Sewer Lines	-	3.33%	-
22	389	Other Sewer Plant & Equipment	68,869	6.67%	4,594
23	390	Office Furniture & Equipment	110,454	6.67%	7,367
24	390.1	Computers and Software	4,025	20.00%	805
25	391	Transportation Equipment	-	20.00%	-
26	392	Stores Equipment	-	4.00%	-
27	393	Tools, Shop And Garage Equip	4,897	5.00%	245
28	394	Laboratory Equip	-	10.00%	-
29	396	Communication Equip	5,936	10.00%	594
30	398	Other Tangible Plant	3,913	0.00%	-
31	398	Nogales WW Trmnt Capacity	427,000	4.72%	20,154
32		<b>Total Plant in Service</b>	<b>11,829,041</b>	<b>3.91%</b>	<b>462,099</b>
33					
34					
35		Less Non Depreciable Plant			
36	351	Organization	5,785	0.00%	-
37	352	Franchises	417	0.00%	-
38	353	Land	7,545	0.00%	-
39					
40		Net Depreciable Plant and Depreciation Amounts	\$ 11,815,295		\$ 462,099
41		Composite Depreciation Rate		3.91%	
42		Less			
43		Amortization of Regulatory CIAC at Settlement Rate			-
44		Amortization of CIAC at Composite Rate	\$ 5,137,674		\$ 200,935
45		Staff Recommended Depreciation Expense			\$ 261,163
46		Company Proposed Depreciation Expense			252,672
47		Staff Adjustment			\$ 8,491

References:

Col A	Schedule GWB-4
Col B	Proposed Rates per Staff Engineering Report for Non Allocated Plant
Col C	Col [A] times Col [B]

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
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Schedule GWB-14  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #3 - NOT USED

OPERATING INCOME ADJUSTMENT #4 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,829,976	\$ 1,829,976
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,659,952	3,659,952
4	Staff Recommended Revenue	1,829,976	1,526,064
5	Subtotal (Line 4 + Line 5)	5,489,928	5,186,016
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,829,976	1,728,672
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,659,952	3,457,344
10	Plus: 10% of CWIP - 2008		
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,659,952	3,457,344
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	768,590	726,042
15	Composite Property Tax Rate - Obtained from ADOR	11.33%	11.33%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 87,068	
17	Company Proposed Property Tax	\$ 91,705	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (4,637)	
19	Property Tax on Staff Recommended Revenue (Line 14 * Line 15)		\$ 82,248
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 87,068
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ (4,820)
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ (4,820)
23	Increase in Revenue Requirement		\$ (303,912)
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.58596%

REFERENCES:

0

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1, Line 27  
Line 21: Line 19 - Line 20  
Line 23: Schedule GWB-1, Line 8



RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
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Test Year Ended December 31, 2008

Schedule GWB-16  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #5 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	<u>\$ 308,456</u>	<u>\$ (6,384)</u>	<u>\$ 302,072</u>

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GTM  
Column (C): Column (A) + Column (B)

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
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Test Year Ended December 31, 2008

Schedule GWB-17  
SURREBUTTAL

**OPERATING INCOME ADJUSTMENT #6 - RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Rate Case Expense	\$ 994	\$ (994)	\$ -

References:

Column (A), Company Schedule C-1

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

LINE NO.		Corporate Costs As Filed Total Budget 2008	Per DR 4.2 Total Actual \$ 2,008	Rio Rico Total Budget 2008	Total Actual 2008					
1	Audit	507,000	1,021,609	17,672	35,608					
2	Tax Services	265,000	322,446	9,237	11,239					
3	Legal	300,000	767,451	10,457	26,750					
4	Other Professional Services	455,000	565,649	15,859	22,404					
5	Management Fee - Total	636,619	642,771	22,190	10,101					
6	Unit Holder Communications	314,100	289,796	10,948	4,496					
7	Trustee Fees	204,000	129,000	7,110	4,496					
8	Escrow & Transfer Agent Fees	75,000	71,366	2,614	2,487					
9	Rent	430,739	299,586	15,014	10,442					
10	Licenses/Fees & Permits	305,000	140,852	10,631	4,909					
11	Office Expenses	254,000	808,101	8,853	28,167					
12	Depreciation	204,242	211,253	7,119	7,363					
13										
14	Total Admin Costs	3,950,700	5,269,882	137,703	168,464					
15										
16	Variance from Budget		1,319,182		30,761					
17										
18	Total Amount Charged in case		137,703							
19										
20	Percentage		3.49%							
21										
22										
23		[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	Note
24		Total		Costs Allocable	Allowable Common	Allocation	Cost to be	Amount	Adjustment	
25		Actuals	Disallowance	to APIF	costs to 70 Companies	(1/70)	Allocated to	in Filing		
26		2008	Amount				Rio Rico			
27	Staff Disallowances									
28	Audit	1,021,609		(919,448)	91,945	1.43%	1,313	17,672	(16,358)	
29	Tax Services	322,446	190,849	(118,437)	11,844	1.43%	169	9,237	(9,067)	(1)
30	Legal	767,451	10,457	(681,295)	68,130	1.43%	973	10,457	(9,483)	(2)
31	Other Professional Services	565,649	-	(565,649)	-	1.43%	-	15,859	(15,859)	(3)
32	Management Fee - Total	642,771		(642,771)	-	1.43%	-	22,190	(22,190)	
33	Unit Holder Communications	289,796		(289,796)	-	1.43%	-	10,948	(10,948)	
34	Trustee Fees	129,000		(129,000)	-	1.43%	-	7,110	(7,110)	
35	Escrow & Transfer Agent Fees	71,366		(71,366)	-	1.43%	-	2,614	(2,614)	
36	Rent	299,586		(299,586)	-	1.43%	-	15,014	(15,014)	
37	Licenses/Fees & Permits	140,852	140,852	(140,852)	-	1.43%	-	10,631	(10,631)	(4)
38	Office Expenses	808,101		(808,101)	-	1.43%	-	8,853	(8,853)	
39	Depreciation	211,253		(190,128)	19,013	1.43%	272	7,119	(6,847)	
40				-	-		-	-	-	
41	Total Admin Costs	5,269,882	342,158	(4,856,431)	190,931		2,728	137,703	(134,975)	
42										
43							Currency Adj.		(7,829)	
44							US Dollars		(127,147)	
45	References:									
46	Column (A): Company Schedule C-2 Based on \$3.95 M									
47	Column (B): Company Response to DR GWB 4.2 Based on \$5.27 M									
48	Column (C): Company's Original Estimate of allocated cost, based on Budget, per filing									
49	Column (D): Company's Revised Original Estimate of allocated costs, based on 2008 Actuals, per Company Response to DR GWB 4.2									
50	Column (E): Staff Recommended Disallowance									
51	Column (F): Company Revised amount subject to allocation, less Staff Recommended disallowance									
52	Column (G): Per testimony GWB, Staff's estimate of common costs benefitting unregulated parties									
53	Column (H): Rio Rico is 1 of 70 companies held by the parent (APIF)									
54	Column (I): Total amount allocable to infrastructure									
55	Column (J): Per Company response to Staff DR 4.2, Based on Budget Amounts									
56	Column (K): Total amount allocable to Infrastructure									
57										

Note: At 'the last minute', Staff noted a minor computational error whereby the allocations to Water and Wastewater should have been \$2,039 and \$688, respectively, for a total of \$2,728, instead of the \$1,363 and \$460, respectively, for a total of \$1,823 used in Staff Direct Testimony, for differences of \$676 and \$228, respectively, and a total difference of \$904 (all in Can dollars). The net adjustment, or increase to expenses is \$852 in US dollars, which is not considered material and will be corrected in the surrebuttal testimony.

is being

RIO RICO UTILITIES, INC. WASTEWATER DIVISION  
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Schedule GWB-19  
SURREBUTTAL

OPERATING INCOME ADJUSTMENT #8 - TRANSPORTATION EXPENSE

LINE NO.	DCT IC	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Transportation Expenses	\$ 26,817	\$ (2,242)	\$ 24,575

References:

Column (A), Company Schedule C-2  
Column (B): Testimony GWB  
Column (C): Column (A) + Column (B)

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
RIO RICO UTILITIES, INC., AN ARIZONA )  
CORPORATION, FOR A DETERMINATION )  
OF THE FAIR VALUE OF ITS UTILITY )  
PLANTS AND PROPERTY AND FOR )  
INCREASES IN ITS WATER AND )  
WASTEWATER RATES AND CHARGES FOR )  
UTILITY SERVICE BASED THEREON )

DOCKET NO. WS-02676A-09-0257

SURREBUTTAL

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 2, 2010

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## **SCHEDULES**

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**EXECUTIVE SUMMARY  
RIO RICO UTILITIES, INC.  
DOCKET NO. WS-02676A-09-0257**

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Rio Rico Utilities, Inc. (“Rio Rico” or “Applicant”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.2 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.9 percent for the discounted cash flow method (“DCF”) to 10.6 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 1.1 percent downward adjustment to reflect a lower financial risk in the Applicant’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 9.2 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa - The Commission should reject the Company’s proposals to allow for a firm size adjustment, to selectively eliminate inputs in Staff’s cost of equity estimation method with unfavorable outputs to create an unbalanced cost of equity estimation method and skewed result, and to rely heavily on analysts’ forecasts for DCF estimates.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Juan C. Manrique who filed direct testimony in this case?**

A. Yes, I am.

**Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's updated cost of capital analysis with its recommendations regarding Rio Rico Utilities, Inc.'s ("Rio Rico" or "Applicant") cost of capital and to respond to the cost of capital portion of the rebuttal testimony of Rio Rico's witness Mr. Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

**Q. Please explain how Staff's Surrebuttal Testimony for cost of capital is organized.**

A. Staff's surrebuttal testimony for cost of capital is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on Mr. Bourassa's rebuttal testimony. Lastly, Section IV presents Staff's recommendations.

**II. COST OF EQUITY AND OVERALL RATE OF RETURN**

**Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since it filed its Direct Testimony?**

A. Yes. Staff updated its analysis to include the most updated data available.



1     **Q.     What is Staff's updated COE?**

2     A.     Staff's updated COE is 9.2 percent. In Staff's direct testimony, the COE was also 9.2  
3             percent.

4  
5     **Q.     What is Staff recommending for Rio Rico's COE?**

6     A.     Staff is recommending a COE of 9.2 percent derived from its updated cost of equity  
7             estimated range from 9.9 percent to 10.6 percent with a downward financial risk  
8             adjustment of 110 basis points (1.1 percent).

9  
10    **Q.     Did Staff update its analysis concerning the Applicant's overall rate of return?**

11    A.     Yes.

12  
13    **Q.     What is Staff's updated overall rate of return?**

14    A.     Staff's updated overall rate of return remains 9.2 percent.

15  
16    **Q.     What is Staff recommending for Rio Rico's overall rate of return?**

17    A.     Staff is recommending an overall rate of return of 9.2 percent. Staff's recommendation is  
18             based on a COE of 9.2 percent and a capital structure of 100.0 percent equity and 0.0  
19             percent debt, as shown in Surrebuttal Schedule JCM-1.

**III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST  
OF CAPITAL WITNESS**

**Mr. Bourassa's Rebuttal**

**Q. What is Staff's response to Mr. Bourassa's criticism of Staff's use of the Hamada risk adjustment on book value of equity since Professor Hamada developed his method using market values?<sup>1</sup>**

**A.** Staff acknowledges that the Hamada methodology was developed using market values of equity for estimating a financial risk adjustment. However, Staff believes that the use of book values to estimate a financial risk adjustment is prudent and reasonable in a regulatory environment.

**Q. Mr. Bourassa addresses a list "of the alleged 'attractive attributes' Mr. Manrique has identified," then proceeds to argue the merits of each one listed.<sup>2</sup> Does Staff have a response to these arguments?**

**A.** Yes. Mr. Bourassa chose to cherry-pick certain aspects of other regulatory environments to dismiss the examples given in Staff's direct testimony of attractive attributes of Arizona ratemaking regulation. These arguments ignore the central tenet of Staff's argument:

The unique regulatory environments of the sample companies and Rio Rico are *firm-specific risks* for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant.<sup>3</sup>

---

<sup>1</sup> Mr. Bourassa's Rebuttal, page 9.

<sup>2</sup> Mr. Bourassa's Rebuttal, pages 14-20

<sup>3</sup> Manrique Direct, page 41, lines 19-24

1 In other words, regulatory risk is a firm-specific risk whether it is in Arizona or another  
2 state. Investors cannot expect to be compensated for firm-specific risks as these can be  
3 diversified away.

4  
5 **Q. Does Staff have a response to Mr. Bourassa's assertion that "Again, if analysts'**  
6 **estimates already consider past growth, then Staff vastly overstates the impact of**  
7 **past growth rates in its DCF model."**<sup>4</sup>

8 A. Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts'  
9 growth rates. Investors do rely on analysts' forecasts as one factor in investment  
10 decisions; however, other factors such as historical data also factor into investors'  
11 investment decisions.

12  
13 **IV. STAFF RECOMMENDATIONS**

14 **Q. What are Staff's recommendations for Rio Rico's cost of capital?**

15 A. Staff makes the following recommendations for Rio Rico's cost of capital:

- 16 1. Staff recommends a capital structure of 0.0 percent debt and 100.0 percent equity.
- 17 2. Staff recommends a cost of debt of 0.0 percent.
- 18 3. Staff recommends a cost of equity of 9.2 percent.
- 19 4. Staff recommends an overall rate of return of 9.2 percent.

20  
21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.

---

<sup>4</sup> Mr. Bourassa's Rebuttal, page 24, lines 12-14

**Rio Rico Utilities Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.2%	9.2%
Weighted Average Cost of Capital			<u>9.2%</u>
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	12.4%	12.4%
Weighted Average Cost of Capital			<u>12.4%</u>

[D] : [B] x [C]  
 Supporting Schedules: JCM-3 and JCM-4.

Intentionally left blank

Rio Rico Utilities Cost of Capital Calculation  
Final Cost of Equity Estimates  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<b>DCF Method</b>				
Constant Growth DCF Estimate		$\frac{D_1}{P_0} \cdot 1$	+	$g^2$
Multi-Stage DCF Estimate		3.7%	+	5.7%
Average of DCF Estimates				=
				$k$
				9.4%
				10.3%
				<u>9.9%</u>
<b>CAPM Method</b>				
Historical Market Risk Premium <sup>3</sup>	$R_f$	$\beta^5$	x	$(R_p)$
Current Market Risk Premium <sup>4</sup>	3.1%	0.79	x	6.9% <sup>6</sup>
Average of CAPM Estimates	4.7%	0.79	x	10.0% <sup>7</sup>
				<u>10.6%</u>
				$k$
				8.6%
				12.6%
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Rio Rico Utilities Cost of Capital Calculation  
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	50.2%	49.8%	100.0%
California Water	47.4%	52.6%	100.0%
Aqua America	53.6%	46.4%	100.0%
Connecticut Water	53.3%	46.7%	100.0%
Middlesex Water	53.0%	47.0%	100.0%
SJW Corp	<u>48.3%</u>	<u>51.7%</u>	<u>100.0%</u>
Average Sample Water Utilities	<b>51.0%</b>	<b>49.0%</b>	<b>100.0%</b>
Rio Rico - Actual Capital Structure	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source:

Sample Water Companies from Value Line

Rio Rico Utilities Cost of Capital Calculation  
Growth in Earnings and Dividends  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
	Dividends Per Share 1998 to 2008 <u>DPS<sup>1</sup></u>	Dividends Per Share Projected <u>DPS<sup>1</sup></u>	Earnings Per Share 1998 to 2008 <u>EPS<sup>1</sup></u>	Earnings Per Share Projected <u>EPS<sup>1</sup></u>
<u>Company</u>				
American States Water	1.8%	4.6%	3.7%	10.9%
California Water	0.9%	2.8%	2.7%	6.9%
Aqua America	7.0%	5.0%	6.2%	11.4%
Connecticut Water	1.3%	No Projection	1.0%	No Projection
Middlesex Water	2.1%	No Projection	2.9%	No Projection
SJW Corp	5.5%	No Projection	3.0%	No Projection
Average Sample Water Utilities	3.1%	4.1%	3.3%	9.7%

1 Value Line



Rio Rico Utilities Cost of Capital Calculation  
Sustainable Growth  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
	Retention Growth 1999 to 2008 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 1999 to 2008 br + vs	Sustainable Growth Projected br + vs
<u>Company</u>					
American States Water	3.0%	6.4%	1.3%	4.3%	7.7%
California Water	2.0%	6.0%	3.8%	5.8%	9.8%
Aqua America	5.2%	5.7%	3.7%	8.9%	9.4%
Connecticut Water	2.6%	No Projection	0.8%	3.4%	No Projection
Middlesex Water	1.4%	No Projection	2.7%	4.1%	No Projection
SJW Corp	4.5%	No Projection	0.1%	4.6%	No Projection
Average Sample Water Utilities	3.1%	6.0%	2.0%	5.2%	9.0%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Rio Rico Utilities Cost of Capital Calculation  
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	Symbol	Spot Price 2/10/2010	Book Value	Mkt To Book	Value Line Beta $\beta$	Raw Beta $\beta_{raw}$
American States Water	AWR	31.76	17.90	1.8	0.80	0.67
California Water	CWT	35.59	20.39	1.7	0.75	0.60
Aqua America	WTR	16.8	8.36	2.0	0.65	0.45
Connecticut Water	CTWS	22.21	12.74	1.7	0.80	0.67
Middlesex Water	MSEX	16.52	11.08	1.5	0.80	0.67
SJW Corp	SJW	21.84	15.03	1.5	0.95	0.90
Average				1.7	0.79	0.66

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]:  $(-0.35 + [F]) / 0.67$

Rio Rico Utilities Cost of Capital Calculation  
Calculation of Expected Infinite Annual Growth in Dividends  
Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical <sup>1</sup>	3.1%
DPS Growth - Projected <sup>1</sup>	4.1%
EPS Growth - Historical <sup>1</sup>	3.3%
EPS Growth - Projected <sup>1</sup>	9.7%
Sustainable Growth - Historical <sup>2</sup>	5.2%
<u>Sustainable Growth - Projected<sup>2</sup></u>	<u>9.0%</u>
Average	<b>5.7%</b>

<sup>1</sup> Schedule JCM-5

<sup>2</sup> Schedule JCM-6

Rio Rico Utilities Cost of Capital Calculation  
Multi-Stage DCF Estimates  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price ( $P_0$ ) <sup>1</sup> 2/10/2010	Projected Dividends <sup>2</sup> (Stage 1 growth) ( $D_t$ )				Stage 2 growth <sup>3</sup> ( $g_n$ )	Equity Cost Estimate (K) <sup>4</sup>
		$d_1$	$d_2$	$d_3$	$d_4$		
American States Water	31.8	1.08	1.15	1.21	1.28	6.7%	10.0%
California Water	35.6	1.25	1.32	1.39	1.47	6.7%	10.1%
Aqua America	16.8	0.60	0.64	0.68	0.72	6.7%	10.2%
Connecticut Water	22.2	0.94	0.99	1.05	1.11	6.7%	10.8%
Middlesex Water	16.5	0.75	0.79	0.84	0.89	6.7%	11.1%
SJW Corp	21.8	0.70	0.74	0.78	0.82	6.7%	9.8%

Average      **10.3%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price

$D_t$  = dividends expected during stage 1

$K$  = cost of equity

$n$  = years of non - constant growth

$D_n$  = dividend expected in year n

$g_n$  = constant rate of growth expected after year n

<sup>1</sup> [B] see Schedule JCM-7

<sup>2</sup> Derived from Value Line Information

<sup>3</sup> Average annual growth in GDP 1929 - 2008 in current dollars.

<sup>4</sup> Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
RIO RICO UTILITIES, INC. FOR A )  
DETERMINATION OF THE FAIR VALUE )  
OF ITS UTILITY PLANT AND PROPERTY )  
AND FOR INCREASES IN ITS WATER AND )  
WASTEWATER RATES AND CHARGES FOR )  
UTILITY SERVICE THEREON. )  
\_\_\_\_\_ )

DOCKET NO. WS-02676A-09-0257

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 2, 2010

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**EXECUTIVE SUMMARY  
RIO RICO UTILITIES, INC.  
DOCKET NO. WS-02676A-09-0257**

**1. NON-ACCOUNT WATER**

Staff recommends that Rio Rico Utilities be required to report in detail by March 8, 2010 how the 30.523 million gallons water used by the Company in 2008.

Staff recommends that Rio Rico Utilities file, annually after the effective date of the Decision in this matter, reports within 30 days of the end of each calendar year, with the Commission's Docket control, which indicate the quantity of water pumped and sold each month during the year. In the event the non-account water level for the Company exceeds 10% during a reporting period, the Company shall report on the efforts taken to reduce water loss, such as number of leaks repaired. If after three consecutive reports have been filed the Company's non-account water levels remain below the 10 percent threshold, Staff recommends that the reporting requirement be eliminated.

**2. PROPOSED HOOK UP FEE TARIFF ("HUF")**

Staff continues to recommend the proposed HUF tariffs be denied.

**INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division ("Staff"), 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Jian W. Liu who filed direct testimony in this case?**

A. Yes, I am.

**Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Rio Rico Utilities ("Company") witness, Mr. Gregory S. Sorensen, regarding the unaccounted water, and hook up fee tariffs.

**NON-ACCOUNT WATER**

**Q. Does the Company admit that its water loss exceeds Staff's recommended threshold?**

A. Yes, the Company admits that the unaccounted water for 2008 was 10.22 percent.

**Q. Did the Company propose any adjustments to account for some of the lost water?**

A. Yes, the Company originally reported 843,205,000 gallons pumped and 735,442,000 gallons sold in 2008, resulting in a water loss of 12.78% for 2008. Rio Rico Utilities, in its response to data requests JWL 1.5 in July 2009, stated that Company used 30.523 million gallons water for flushing pipes, cleaning tanks, etc. Therefore, the water loss is reduced to approximately 10%.



1 **Q. Did Staff accept those adjustments? What is Staff's recommendation regarding this**  
2 **adjustment?**

3 A. Yes, Staff accepted those adjustments. Since 30.523 million gallons water is a lot of water,  
4 Staff recommends that Rio Rico Utilities be required to report in detail by March 8, 2010  
5 how this 30.523 million gallons water used by the Company in 2008.

6  
7 **Q. Is Staff changing that recommendation after having read the Company's rebuttal**  
8 **testimony regarding the unaccounted water?**

9 A. Yes, Staff recommends that Rio Rico Utilities file, annually after the effective date of the  
10 Decision in this matter, reports within 30 days of the end of each calendar year, with the  
11 Commission's Docket control, which indicate the quantity of water pumped and sold each  
12 month during the year. In the event the non-account water level for the Company exceeds  
13 10% during a reporting period, the Company shall report the efforts taken to reduce water  
14 loss, such as the number of leaks repaired. If after three consecutive reports have been  
15 filed the Company's non-account water levels remains below the 10 percent threshold,  
16 Staff recommends that the reporting requirement be eliminated.

17  
18 **HOOK UP FEE TARIFFS**

19 **Q. What is the purpose of the off-site hook-up fees?**

20 A. In general, the purpose of the off-site hook-up fees is to equitably apportion the costs of  
21 constructing additional off-site facilities to provide water production, delivery, storage and  
22 pressure among all new service connections. "Off-site Facilities" means wells, storage  
23 tanks and related appurtenances necessary for proper operation, including engineering and  
24 design costs. Offsite facilities may also include booster pumps, pressure tanks,  
25 transmission mains and related appurtenances necessary for proper operation *if these*  
26 *facilities are not for the exclusive use of the applicant and will benefit the entire water*

1        *system.* The determination of a reasonable hook-up fee amount is based on the off-site  
2        plant that will be needed to meet future growth divided by the ultimate number of  
3        connections that can be served by the required plant.

4  
5        **Q.     Is the Company a good candidate for hook up fees?**

6        A.     Staff does not believe that Rio Rico Utilities water system is a good candidate for hook-up  
7        fees. In order to make sure the proposed water plant items benefit the entire water system,  
8        Staff must know what water plant items would be funded using the Company's proposed  
9        hook-up fees. The water system for Rio Rico Utilities is divided into seven pressure zones  
10       at 150 feet intervals. Because of the variances in pressure zones, it is very likely that some  
11       future water plant items would be to support the higher pressure zones. Such plant would  
12       not be of benefit to the water system as a whole.

13  
14       **Q.     Was the Company able to adequately demonstrate a need for hook up fees?**

15       A.     No. Attachments 2 and 3 to my surrebuttal testimony clearly demonstrate that the  
16       Company has failed to provide adequate documentation to support its proposed HUF  
17       tariffs. When asked, the Company could not provide a list of capital expenditures  
18       detailing the plant items in support of its request for a hook up fee. While the Company, in  
19       response to Staff data request JWL 1.14, indicated that it believes that "development  
20       should help pay for itself and the utilization of a HUF would assist in this manner", the  
21       Company did not provide any detail of any plant items, engineering analysis or studies to  
22       demonstrate the need for capital expenditures to be funded with hook up fees. In response  
23       to JWL 1.12, while the Company lodged an objection, it nevertheless responded: "The  
24       Company does not know at this time what capital expenditures will be funded with funds  
25       collected under the HUF tariff if approved, however, the general type of plant to be funded  
26       is described in the proposed form of tariff."

1 **Q. Does Staff continue to recommend denial of the proposed hook up fee tariff?**

2 A. Yes. Staff concludes that Rio Rico Utilities (water division) currently has adequate  
3 production capacity and storage capacity to serve its existing customer base and  
4 reasonable growth for the foreseeable future. Rio Rico Utilities provided water service to  
5 6,605 customers as of the test year ending December 31, 2008. The existing water system  
6 of Rio Rico Utilities has adequate production capacity and storage capacity to serve  
7 approximately double the number of existing customers (7,000 connections based on the  
8 water use information provided by the Company, see Attachment 4).  
9

10 **Q. Does Staff continue to recommend denial of the proposed hook up fee tariff for the**  
11 **Rio Rico Utilities wastewater system?**

12 A. Yes. Staff concludes that Rio Rico Utilities has adequate sewer treatment capacity, to  
13 serve its existing customer base and reasonable growth for the foreseeable future. More  
14 than 90% of wastewater collected from the Rio Rico Utilities enters the City of Nogales  
15 sewerage collection system where it co-mingles and eventually reaches the Nogales  
16 International Wastewater Treatment Plant facility. The NIWTP is owned and operated by  
17 the United States International Boundary and Water Commission. NIWTP is adjacent and  
18 westerly of the Santa Cruz River/Nogales Wash confluence, about ten miles north of  
19 Ambos, Nogales. It treats a daily average dry weather flow of approximately fourteen  
20 million gallons, of which seventy per cent is from Mexico.  
21

22 There is also a small wastewater system which serves the "Villas Unit 12" subdivision. It  
23 consists of a single pumping station and an aerobic stabilization pond. This facility served  
24 103 customers in 2009. The present wastewater flow is less than 30% of the available  
25 treatment capacity.  
26

1     **Q.     Do you have any comments on the Company's proposed form of HUF tariff for the**  
2     **water and wastewater division?**

3     A.     Yes. The Company's proposed form of tariff differs from the standard tariff found on the  
4     Commission's website. For instance, the Company's proposed tariffs reference in several  
5     places that additional funds may be required from an applicant for plant. The hook up fee  
6     should be calculated to cover all necessary Off-site Facilities.

7  
8     **Q.     Does Staff have a recommendation?**

9     A.     If the Commission decides to allow a hook up fee tariff for Rio Rico Utilities, the  
10     Company should be required to use the standard hook up fee tariff form.

11  
12    **Q.     Did you attempt to address every issue the Company raised in its rebuttal testimony?**

13    A.     No. Staff limited its discussion to the specific issue as outlined above. Staff's lack of  
14    response to any issue in this proceeding should not be construed as agreement with the  
15    Company's position in its rebuttal testimony; rather where there is no response, Staff  
16    relies on its original direct testimony.

17  
18    **Q.     Does this conclude your surrebuttal testimony?**

19    A.     Yes, it does.

# **Attachment 1**

Staff's First Set of Data Requests to Rio Rico Utilities

**COMMISSIONERS**  
KRISTIN K. MAYES - Chairman  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP



**MICHAEL P. KEARNS**  
Interim Executive Director

**ARIZONA CORPORATION COMMISSION**

July 10, 2009

*Via E-mail and United States Mail*

Mr. Greg Sorensen  
12725 West Indian School Road  
Suite D-101  
Avondale, Arizona 85392

Mr. Thomas Bourassa  
139 West Wood Drive  
Phoenix, Arizona 85029

Re: Staff's First Set of Data Requests to Rio Rico Utilities, Inc.; Docket No. WS-02676A-09-0257

Dear Mr. Sorensen:

Please treat this as Staff's First Set of Data Requests to Rio Rico Utilities, Inc. in the above matter.

For purposes of this data request set, the words "Rio Rico Utilities, Inc.," "Company," "you," and "your" refer to Rio Rico Utilities, Inc. and any representative, including every person and/or entity acting with, under the control of, or on behalf of Rio Rico Utilities, Inc. For each answer, please identify by name, title, and address each person providing information that forms the basis for the response provided.

These data requests are continuing, and your answers or any documents supplied in response to these data requests should be supplemented with any additional information or documents that come to your attention after you have provided your initial responses.

Please respond within ten calendar days of your receipt of the copy of this letter. However, if you require additional time, please let us know.

*Please provide one hard copy as well as searchable PDF, DOC or EXCEL files (via email or electronic media) of the requested data directly to each of the following addressees via overnight delivery services to:*

- (1) Jian Liu, Utilities Division, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.
- (2) Amanda Ho, Staff Attorney, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.

Sincerely,

A handwritten signature in black ink, appearing to read "Amanda Ho", written over a horizontal line.

Amanda Ho  
Staff Attorney, Legal Division  
(602) 542-3402

AH:klc  
Enclosure

cc: Gerald Tremblay  
Jay Shapiro, Esq.

**ARIZONA CORPORATION COMMISSION  
STAFF'S FIRST SET OF DATA REQUESTS TO  
RIO RICO UTILITIES, INC.  
DOCKET NO. WS-02676A-09-0257  
JULY 10, 2009**

---

**Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.**

- JWL 1.1 Please provide a copy of the Arizona Department of Water Resources ("ADWR") Water Provider Compliance Status Report for the Company's water system.
- JWL 1.2 Please provide a copy of Arizona Department of Environmental Quality (ADEQ) Compliance Status Report for the Company's water and wastewater systems.
- JWL 1.3 How many connections does the Company expect to add each year for the next five years beginning in 2009 for each of Company's systems (both Water and Wastewater)?
- JWL 1.4 The Company submitted its Water Use Data Sheet by Month from Jan 08 to Dec 08. For July 08, it reports that the gallons sold was 74,998,000, and the gallons pumped was 65,791,000. There was 9 million more gallons of water sold than gallons pumped for that month. This is impossible (assuming there isn't another water source not identified). Please explain and verify the correctness of this figure.
- JWL 1.5 The Company reported 843,205,000 gallons pumped and 735,442,000 gallons sold in 2008, resulting in a water loss of 12.78% for 2008. Please explain.
- JWL 1.6 Please submit ADEQ's Monitoring Assistance Program ("MAP") invoice if Company participated this program in 2008.
- JWL 1.7 Please use Arizona Corporation Commission's ("ACC") TARIFF SCHEDULE Revised on 1/8/2009 for Company's WATER OFF-SITE HOOK-UP FEE application. This form is located at ACC's Website.  
([http://www.azcc.gov/Divisions/Utilities/forms/HUF\\_Tariff\\_updated\\_1-8-09%20\\_Water\\_.pdf](http://www.azcc.gov/Divisions/Utilities/forms/HUF_Tariff_updated_1-8-09%20_Water_.pdf)).
- JWL 1.8 Please use ACC's TARIFF SCHEDULE Revised on 6/10/2009 for the Company's WASTEWATER OFF-SITE HOOK-UP FEE application. This form is located at ACC's Website.  
([http://www.azcc.gov/Divisions/Utilities/forms/HUF\\_Tariff\\_Wastewater\\_6-10-09.pdf](http://www.azcc.gov/Divisions/Utilities/forms/HUF_Tariff_Wastewater_6-10-09.pdf)).
- JWL 1.9 Please provide a list of the capital expenditures that would be funded using the Company's proposed hook-up fees for both Water and Wastewater systems.

**ARIZONA CORPORATION COMMISSION  
STAFF'S FIRST SET OF DATA REQUESTS TO  
RIO RICO UTILITIES, INC.  
DOCKET NO. WS-02676A-09-0257  
JULY 10, 2009**

---

**Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.**

- JWL 1.10      Please provide a detailed description of the plant items included in the capital expenditures listed above. This description should include justification of need and the scheduled plant construction start and in-service dates. Provide copies of any engineering analysis or studies that were prepared in support of the proposed plant additions for both Water and Wastewater systems.
- JWL 1.11      Describe in detail how the subject capital expenditures were used to develop/calculate the Company's proposed hook-up fee amounts both Water and Wastewater systems.
- JWL 1.12      Please explain in detail how proposed water plant items benefit the entire water system.
- JWL 1.13      Please explain in detail how proposed wastewater plant items benefit the entire wastewater system.
- JWL 1.14      Why does the Company believe that its systems are a good candidate for the hook-up fee tariff? Please explain the benefits and drawbacks for the Rio Rico Utilities, Inc. with the proposed hook-up fee tariff.



## **Attachment 2**

Rio Rico Utilities' Objections to data requests

## Jian Liu

---

**From:** BIRK, WHITNEY [WBIRK@FCLAW.com]  
**Sent:** Thursday, July 16, 2009 5:39 PM  
**To:** Amanda Ho; Jian Liu; Karyn Christine  
**Cc:** SHAPIRO, JAY  
**Subject:** RRUI (09-0257) - objections to Staff's 1st set DRs

**Importance:** High

**Attachments:** RRUI - Response to Staff 1st DR (09-0257)\_v1.pdf



RRUI - Response to  
Staff 1st D...

Attached is the response document for Staff's first set of data requests to Rio Rico. Objections to data requests 1.7-1.13 have been inserted. The Company will provide responses by Thursday, July 23rd.

Whitney Birk | Certified Paralegal | Fennemore Craig, P.C.  
3003 North Central Avenue, Suite 2600 | Phoenix, AZ 85012-2913 |  
Tel: 602.916.5720 | Fax: 602.916.5920  
Fennemore Craig, P.C.  
Denver | Las Vegas | Nogales | Phoenix | Tucson [www.FennemoreCraig.com](http://www.FennemoreCraig.com)

IRS CIRCULAR 230 DISCLOSURE: To ensure compliance with requirements imposed by the IRS, we inform you that, to the extent this communication (or any attachment) addresses any tax matter, it was not written to be (and may not be) relied upon to (i) avoid tax-related penalties under the Internal Revenue Code, or (ii) promote, market or recommend to another party any transaction or matter addressed herein (or in any such attachment). For additional information regarding this disclosure please visit our web site.

CONFIDENTIALITY NOTICE: The information contained in this message may be protected by the attorney-client privilege. If you believe that it has been sent to you in error, do not read it. Please immediately reply to the sender that you have received the message in error. Then delete it. Thank you.

## **Attachment 3**

Rio Rico Utilities responses to data requests

Jian Liu

---

**From:** BIRK, WHITNEY [WBIRK@FCLAW.com]  
**Sent:** Thursday, July 23, 2009 12:49 AM  
**To:** aho@azcc.goc; Jian Liu; Karyn Christine  
**Cc:** SHAPIRO, JAY  
**Subject:** RRUI (09-0257) - responses to Staff DRs 1.1-1.6  
**Attachments:** JWL 1.01\_ADWR gpcd compliance.pdf; JWL 1.02 Water Compliance Status.pdf; JWL 1.02 WW Compliance Insp V-12.pdf; JWL 1.02 WW Compliance Insp V-13.pdf; RRUI Response to Staff's 1st set DRs.pdf; JWL 1 03 Projected Growth.xls; JWL 1.05 RRUI Sold and Unaccounted for Water\_2008.xls

Rio Rico Utilities hereby submits its responses to data requests JML 1.1 through 1.6. Provided herewith is the response document, along with attachments to 1.1, 1.2, 1.3, and 1.5.

Responses to 1.11 and 1.14 are forthcoming.

Please let us know if you have any questions.

Thanks.

Whitney Birk | Certified Paralegal | Fennemore Craig, P.C.

3003 North Central Avenue, Suite 2600 | Phoenix, AZ 85012-2913 |

Tel: 602.916.5720 | Fax: 602.916.5920

## **FENNEMORE CRAIG**

**IRS CIRCULAR 230 DISCLOSURE:** To ensure compliance with requirements imposed by the IRS, we inform you that, to the extent this communication (or any attachment) addresses any tax matter, it was not written to be (and may not be) relied upon to (i) avoid tax-related penalties under the Internal Revenue Code, or (ii) promote, market or recommend to another party any transaction or matter addressed herein (or in any such attachment). For additional information regarding this disclosure please visit our web site.

**CONFIDENTIALITY NOTICE:** The information contained in this message may be protected by the attorney-client privilege. If you believe that it has been sent to you in error, do not read it. Please immediately reply to the sender that you have received the message in error. Then delete it. Thank you.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.1

---

Q. Please provide a copy of the Arizona Department of Water Resources ("ADWR")  
Water Provider Compliance Status Report for the Company's water system.

RESPONSE: Please see the attached document.

ARIZONA DEPARTMENT OF WATER RESOURCES  
3550 North Central Avenue, Phoenix, Arizona 85012  
Telephone 602 771-8500  
Fax 602 771-8681



Janet Napolitano  
Governor

Herbert R. Guenther  
Director

October 24, 2008

RECEIVED

NOV 05 REC'D

RIO RICO UTILITIES

Rio Rico Utilities Inc.  
Attn: Dara Mora  
1060 Yavapai Ste. 9  
Rio Rico, Az 85648

**Notification 2000 through 2006 Gallons per Capita per Day (GPCD)**

**Dear Ms. Mora:**

The Santa Cruz Ama has completed its review of your 2000 through 2006 Annual Water Withdrawal and Use Reports. Based on the reported water use and the service area population estimate for your system for those years, the Department has calculated both the Annual Total GPCD Requirement and the Annual Total GPCD rate and has adjusted your flexibility account balance accordingly. The Department has also calculated the total Lost and Unaccounted for water percentage for your system in those years. The purpose of this letter is to notify you of the status of your system's compliance with the Third Management Plan Conservation Requirements for Large Municipal Providers (see Table 1).

The actual calculations used to determine the Annual Total GPCD Requirement, Annual Total GPCD rate and total Lost and Unaccounted for water and flexibility account balance for your system for each year are included in the enclosed attachments.

The flexibility account balance began in calendar year 1992 at the beginning of the Second Management Plan. The flexibility account balance is carried forward and adjusted based on the water use each calendar year. However, the annual balance is subject to the following limitations: the maximum allowable credit forwarded may not exceed 30 GPCD; the maximum allowable debit forwarded may not exceed -10 GPCD. If your flexibility account is in a debit situation and exceeds the maximum allowable debit -10 GPCD, you are in violation of the total GPCD requirement.

Lost and unaccounted for water is water that is lost from the system during transportation or distribution due to seepage, evaporation, leaks, breaks, phreatophyte use or other causes. It is calculated by subtracting metered or estimated water deliveries from total water withdrawn, diverted or received during the year. Large providers are required by the management plan to limit their annual lost and unaccounted for water to ten percent of the total amount of water withdrawn, diverted or received during the year.

Based on the information provided to the Department in the Annual Water Withdrawal and Use Reports for your system, the Department has determined that Rio Rico Utilities Inc. is currently in compliance with the Annual Total GPCD Requirement and the allowable Lost and Unaccounted for Water percentage from the years 2000 through 2006.



Printed on recycled paper. Each ton of recycled paper saves 7,000 gallons of water.

If you have any questions regarding this matter, please contact Nick Kilb at 520-761-1814.

Sincerely,

*Alejandro Barcenas*

Alejandro Barcenas  
Area Director  
Santa Cruz AMA



Printed on recycled paper. Each ton of recycled paper saves 7,000 gallons of water.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.2

---

Q. Please provide a copy of Arizona Department of Environmental Quality (ADEQ) Compliance Status Report for the Company's water and wastewater systems.

RESPONSE: Please see the attached documents.



Arizona Department of Environmental Quality  
Drinking Water Monitoring and Protection Unit  
Mail Code 5415B-2  
1110 West Washington Street  
Phoenix, AZ 85007

### Drinking Water Compliance Status Report

System Name:	RIO RICO UTILITIES, INC.	System Type:	Community	Is system consecutive?	Yes
System ID #	12011	Non-transient Non-community			
		Transient Non-community	X	No	
Overall compliance status	X	No major deficiencies		Major deficiencies	
Monitoring and Reporting status	X	No major deficiencies		Major deficiencies	
Comments: None					

Operation and Maintenance status	X	No major deficiencies		Major deficiencies
Date of last Sanitary Survey	8/30/07	Inspector	Steve Devereaux, SRO	
Major unresolved/ongoing operation and maintenance deficiencies:				
<input type="checkbox"/> unable to maintain 20psi <input type="checkbox"/> cross connection/backflow problems <input type="checkbox"/> treatment deficiencies <input type="checkbox"/> certified operator <input type="checkbox"/> inadequate storage <input type="checkbox"/> surface water treatment rule <input type="checkbox"/> approval to construct/of construction <input type="checkbox"/> other				
Comments: None				

Is an ADEQ administrative order in effect?		Yes	X	No
Comments: None				

System Information				
Population Served				10,257
Service Connections				3,541
Number of Employees				8
Number of Customers				8
Initial Monitoring Year				1995
Monitoring Assistance Program (MAP) System				
			Yes	X
			No	

Inspection completed by	Donna Calderon, Manager
Drinking Water Monitoring and Protection Unit	
Phone	802-771-4641
Date	June 3, 2009
Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4, and PWS is in compliance.	
Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.	
Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.	

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.



Janice K. Brewer  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street ■ Phoenix, Arizona 85007  
(602) 771-2300 ■ [www.azdeq.gov](http://www.azdeq.gov)



Patrick J. Cunningham  
Acting Director

June 5, 2009

RECEIVED

JUN 11 2009

Insp. #: 141058

APP Permit#: Type 1.09 General

Rio Rico Utilities, Inc.  
Attention: Dara Mora  
1060 Yavapai Dr., Suite 9  
Rio Rico, Arizona 85648-4165

RIO RICO UTILITIES

Subject: APP Wastewater Compliance Inspection of the Josephine Canyon Wastewater Treatment Facility (aka Villas No. 12 WWTF); Place ID #112963

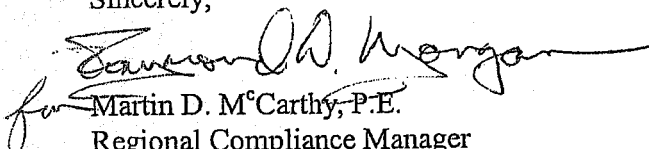
Dear Ms. Mora:

Enclosed is a copy of an Inspection Report prepared by Raymond D. Morgan of our staff concerning the referenced facility. An inspection was performed on June 3, 2009, in accordance with Arizona Revised Statutes (A.R.S.) §49-241 *et seq.* and with the Arizona Administrative Code (A.A.C.) R18-9-101 *et seq.*

No deficiencies were found in the operation, maintenance or certified operator status of this system at the time of inspection. No further action will result from this inspection. However, if information regarding violations is discovered, or if violations occur, ADEQ may reconsider its position and take additional action as appropriate and as allowed by law.

Please call Raymond D. Morgan at (520) 628-6733, if you have any further questions regarding this report.

Sincerely,

  
Martin D. McCarthy, P.E.  
Regional Compliance Manager  
Southern Regional Office

xc: Cynthia Campbell, Manager, WQCS, WQD, ADEQ

Michele Robertson, Manager, GPS, WQD, ADEQ

Santa Cruz County Health Department

Enclosed for the Santa Cruz County Health Department are two copies of the inspection report. One copy is being provided to the Regional Compliance Manager, Southern Regional Office, and the other copy is being provided to the Regional Compliance Manager, Northern Regional Office.

Northern Regional Office  
1801 W Route 66 ■ Suite 117 ■ Flagstaff, AZ  
86001  
(928) 779-0313

Southern Regional Office  
400 West Congress Street ■ Suite 433 ■ Tucson, AZ  
85701  
(520) 628-6733

## INSPECTION REPORT – WASTEWATER

INSPECTION #: 141058

APP #: Type 1.09 GP  
AZPDES # N/A

FACILITY: Josephine Canyon WWTF  
INSPECTED BY: Raymond D. Morgan  
ACCOMPANIED BY: Dara Mora & Ruben Alcantar  
OPERATOR: Martin Garland

INSP. DATE: 6/3/09  
COUNTY: Santa Cruz  
GRADE 1

1. This system meets the requirements of the following permits.

	YES	NO	N/A
A. Ground Water Protection Permit.....			√
B. Aquifer Protection Permit.....(Type 1.09 General Permit).....	√		
C. Reuse Permit.....			√
D. General Permit.....			√
E. AZPDES Permit.....			√
F. Unified Permit.....			√
2. The effluent quality of this system meets ADEQ and USEPA Standards.....	√		
3. The method of effluent disposal is in accordance with ADEQ and USEPA.....	√		
4. The operator of the system holds the required certification as required by ADEQ rules.....	√		
5. This facility met the ADEQ standards for physical facilities, at the time of the inspection.....	√		

### System Description

The system consists of three treatment lagoons with a combined design capacity of 45,000 gpd, a lift station and a collection system serving 178 connections at the present time. The actual flow to the lagoons is very low.

### Inspector Comments

In general, the operating conditions of the wastewater treatment system looked good. My comments are listed as follows:

1. There was minimal odor and the top of the berms and the inside of the berms were generally clear of vegetation except right next to the water surface.
2. One lagoon has a small amount of wastewater in it and the other two are completely dry.
3. The lift station supplying wastewater to the WWTF had minimal odor but all exposed metal was severely corroded.
4. The water spigot at this facility has a reduced pressure backflow prevention assembly installed upstream of it.
5. A degreasing compound is being added to the lift station.
6. The present wastewater flow ranges from 1,100 to 1,200 gpd.

### Summary

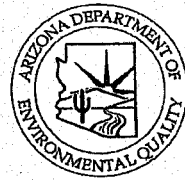
The results of this inspection indicate that at this time your wastewater treatment facility does not appear to have any operation, maintenance, monitoring or reporting deficiencies according to the Arizona Department of Environmental Quality rules and regulations.



Janice K. Brewer  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street ■ Phoenix, Arizona 85007  
(602) 771-2300 ■ [www.azdeq.gov](http://www.azdeq.gov)



Patrick J. Cunningham  
Acting Director

RECEIVED

June 5, 2009

JUN 11 2009

Insp. #: 141066

APP Permit #: Type 1.09 General

Rio Rico Utilities, Inc.  
Attention: Dara Mora  
1060 Yavapai Dr., Suite 9  
Rio Rico, Arizona 85648-4165

RIO RICO UTILITIES

Subject: APP Wastewater Compliance Inspection of the Peck Canyon Wastewater Treatment Facility; Place ID #1597

Dear Ms. Mora:

Enclosed is a copy of an Inspection Report prepared by Raymond D. Morgan of our staff concerning the referenced facility. An inspection was performed on June 3, 2009, in accordance with Arizona Revised Statutes (A.R.S.) §49-241 *et seq.* and with the Arizona Administrative Code (A.A.C.) R18-9-101 *et seq.*

No deficiencies were found in the operation, maintenance or certified operator status of this system at the time of inspection. No further action will result from this inspection. However, if information regarding violations is discovered, or if violations occur, ADEQ may reconsider its position and take additional action as appropriate and as allowed by law.

Please call Raymond D. Morgan at (520) 628-6733, if you have any further questions regarding this report.

Sincerely,

*Raymond D. Morgan*

for Martin D. McCarthy, P.E.  
Regional Compliance Manager  
Southern Regional Office

xc: Cynthia Campbell, Manager, WQCS, WQD, ADEQ  
Michele Robertson, Manager, GPS, WQD, ADEQ  
Santa Cruz County Health Department

Northern Regional Office  
1801 W Route 66 ■ Suite 117 ■ Flagstaff, AZ  
86001  
(928) 779-0313

Southern Regional Office  
400 West Congress Street ■ Suite 433 ■ Tucson, AZ  
85701  
(520) 628-6733

## INSPECTION REPORT – WASTEWATER

INSPECTION #: 141066

APP #: Type 1.09 GP  
AZPDES # N/A

FACILITY: Peck Canyon WWTF  
INSPECTED BY: Raymond D. Morgan  
ACCOMPANIED BY: Dara Mora & Ruben Alcantar  
OPERATOR: Martin Garland

INSP. DATE: 6/3/09  
COUNTY: Santa Cruz  
T.F. GRADE 1  
C.S. GRADE 2

1. This system meets the requirements of the following permits.

	YES	NO	N/A
A. Ground Water Protection Permit.....			√
B. Aquifer Protection Permit.....(Type 1.09 General Permit).....	√		
C. Reuse Permit.....			√
D. General Permit.....			√
E. AZPDES Permit.....			√
F. Unified Permit.....			√
2. The effluent quality of this system meets ADEQ and USEPA Standards.....	√		
3. The method of effluent disposal is in accordance with ADEQ and USEPA.....	√		
4. The operator of the system holds the required certification as required by ADEQ rules.....	√		
5. This facility met the ADEQ standards for physical facilities, at the time of the inspection.....	√		

### System Description

The system consists of three treatment lagoons used for emergency storage only, four pump stations and a collection system. The lagoons are located next to pump station # 5. If pump station # 5 fails, the flow can easily be diverted into the lagoons with the use of a portable pump. Pump station # 5 discharges to pump station # 3. Flows to pump station #3 can be diverted back to pump station #5 and then into the lagoons, if necessary. Pump station #3 normally discharges to pump station #2 which in turn discharges to pump station #1. The flow from all the upstream pump stations and associated collection system is then pumped to the Nogales International Wastewater (WWTF) from pump station #1, the last pump station. The wastewater flow ranges from 400,000 to 450,000 gpd. There are approximately 2,000 connections to the wastewater collection system at the present time.

### Inspector Comments

The operating conditions of the wastewater treatment system and the downstream pump stations looked good. My comments are listed as follows:

1. The top and inside of the berms were clear of deep rooted vegetation.
2. Enzymes were being discharged to the wet well at pump station #3 to prevent hydrogen sulfide generation and associated odors.
3. A degreasing compound is being added to the pump stations.
4. A backup pump is in inventory for use if needed.

Inspection Report – APP Wastewater  
June 5, 2009  
Page 2 of 2

### **Summary**

The results of this inspection indicate that your wastewater treatment facility has no apparent operation, maintenance or certified operator deficiencies at this time according to the Arizona Department of Environmental Quality rules and regulations.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.3

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Q. How many connections does the Company expect to add each year for the next five years beginning in 2009 for each of Company's systems (both Water and Wastewater)?

RESPONSE: With the current state of the economy, it is very difficult for anyone to confidently predict future growth rates. For planning purposes, the Company looks at low, middle, and high growth rate estimates. This uses a conservative 1% rate, a moderate 3% rate, and a 5% rate which is closer to, but still less than, the prior 5 years' growth rates of approximately 8% water and 6.5% sewer, and which now seems aggressive given the current real estate market. Please see the attached excel file.

**Rio Rico Utilities, Inc.****Projected****Growth\*****\* Assumes 1% growth****Water Connections**

Wastewater Connections South Sewer Basin

Wastewater Connections North Sewer Basin

**Total Wastewater Connections**

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
6,672	6,738	6,806	6,874	6,943
2,075	2,096	2,117	2,138	2,159
103	104	105	106	107
2,178	2,200	2,222	2,244	2,266

**\* Assumes 3% growth****Water Connections**

Wastewater Connections South Sewer Basin

Wastewater Connections North Sewer Basin

**Total Wastewater Connections**

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
6,672	6,872	7,078	7,290	7,509
2,075	2,137	2,201	2,267	2,335
103	106	109	113	116
2,178	2,243	2,311	2,380	2,451

**\* Assumes 5% growth****Water Connections**

Wastewater Connections South Sewer Basin

Wastewater Connections North Sewer Basin

**Total Wastewater Connections**

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
6,672	7,005	7,355	7,723	8,109
2,075	2,179	2,288	2,402	2,522
103	108	114	119	125
2,178	2,287	2,401	2,521	2,647



**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.4

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Q. The Company submitted its Water Use Data Sheet by Month from Jan 08 to Dec 08. For July 08, it reports that the gallons sold was 74,998,000, and the gallons pumped was 65,791,000. There was 9 million more gallons of water sold than gallons pumped for that month. This is impossible (assuming there isn't another water source not identified). Please explain and verify the correctness of this figure.

RESPONSE: The Company bills in two cycles, which happen not to coincide with month end. The "gallons sold" figure is based on these bills, which are generated from customer meter reads performed on various days throughout the month. On the other hand, the "gallons pumped" figure is derived from meter reads on wells taken at the end of each month. Therefore, in any given month, there might be a difference between gallons sold and gallons pumped, which has nothing to do with error, but rather, timing. It is more accurate to consider these figures over a 12 or 24 month period. The figures are correct (except for the inadvertent exclusion of "company use" water, which is explained in the response to data request JWL 1.5).

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.5

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Q. The Company reported 843,205,000 gallons pumped and 735,442,000 gallons sold in 2008, resulting in a water loss of 12.78% for 2008. Please explain.

RESPONSE: Please see the attached spreadsheet. The figures originally submitted did not take into consideration the water used by the Company, which amount should be excluded from the water loss calculation. This water is used for flushing pipes, cleaning tanks, etc. This reduces the water loss to approximately 10%.

Rio Rico Utilities, Sold and Unaccounted for Water, 2008

Month	Total Pumped		Total Sold		Comm. Sold		Residential Sold		Company Use		Accounted For		Unaccounted For		Unacct. %
	MG's	Ac. Ft	MG's	Ac. Ft.	MG's	Ac. Ft	MG's	Ac. Ft.	MG	Ac. Ft.	MG's	Ac. Ft.	MG's	Ac. Ft.	
Jan	59.615	182.95	51.640	158.48	9.392	28.82	42.248	129.65	1.034	3.17	52.674	161.65	6.941	21.30	11.64
Feb	55.860	171.43	49.138	150.80	8.935	27.42	40.203	123.38	1.025	3.15	50.163	153.94	5.697	17.48	10.20
Mar	67.686	207.72	47.924	147.07	9.347	28.68	38.577	118.39	0.942	2.89	48.866	149.96	18.820	57.76	27.80
Apr	78.475	240.83	65.739	201.75	14.157	43.45	51.582	158.30	4.307	13.22	70.046	214.96	8.429	25.87	10.74
May	86.180	264.48	66.500	204.08	20.391	62.58	46.109	141.50	1.362	4.18	67.862	208.26	18.318	56.22	21.26
June	93.385	286.59	87.027	267.08	22.190	68.10	64.837	198.98	1.066	3.27	88.093	270.35	5.292	16.24	5.67
July	65.792	201.91	74.998	230.16	18.141	55.67	56.857	174.49	1.125	3.45	76.123	233.61	-10.331	-31.70	-15.70
Aug	72.031	221.06	59.955	184.00	20.468	62.81	39.487	121.18	2.393	7.34	62.348	191.34	9.683	29.72	13.44
Sept	73.199	224.64	57.964	177.88	12.631	38.76	45.333	139.12	2.353	7.22	60.317	185.11	12.882	39.53	17.60
Oct	73.549	225.71	58.038	178.11	13.391	41.10	44.647	137.02	5.291	16.24	63.329	194.35	10.220	31.36	13.90
Nov	68.563	210.41	64.345	197.47	15.630	47.97	48.715	149.50	5.844	17.93	70.189	215.40	-1.626	-4.99	-2.37
Dec	60.872	186.81	54.001	165.72	11.255	34.54	42.746	131.18	3.781	11.60	57.782	177.33	3.090	9.48	5.08
Totals	855.207	2624.53	737.269	2262.60	175.928	539.90	561.341	1722.69	30.523	93.67	767.792	2356.27	87.415	268.27	10.22

7.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
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July 23, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392

Company Response Number: JWL 1.6

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Q. Please submit ADEQ's Monitoring Assistance Program ("MAP") invoice if Company participated this program in 2008.

RESPONSE: The Company does not participate in ADEQ's MAP.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.7

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- Q. Please use Arizona Corporation Commission's ("ACC") TARIFF SCHEDULE Revised on 1/8/2009 for Company's WATER OFF-SITE HOOK-UP FEE application. This form is located at ACC's Website. ([http://www.azcc.gov/Divisions/Utilities/forms/HUF\\_Tariff\\_updated\\_1-8-09%20\\_Water\\_.pdf](http://www.azcc.gov/Divisions/Utilities/forms/HUF_Tariff_updated_1-8-09%20_Water_.pdf)).

OBJECTION: The Company has submitted a proposed form of hook up fee tariff with its direct filing and is seeking Commission approval of this form of tariff. It is inappropriate for Staff to direct the Company to change its proposed tariff.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.8

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- Q. Please use ACC's TARIFF SCHEDULE Revised on 6/10/2009 for the Company's WASTEWATER OFF-SITE HOOK-UP FEE application. This form is located at ACC's Website.  
([http://www.azcc.gov/Divisions/Utilities/forms/HUF\\_Tariff\\_Wastewater\\_6-10-09.pdf](http://www.azcc.gov/Divisions/Utilities/forms/HUF_Tariff_Wastewater_6-10-09.pdf)).

OBJECTION: The Company has submitted a proposed form of hook up fee tariff with its direct filing and is seeking Commission approval of this form of tariff. It is inappropriate for Staff to direct the Company to change its proposed tariff.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.9

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Q. Please provide a list of the capital expenditures that would be funded using the Company's proposed hook-up fees for both Water and Wastewater systems.

OBJECTION: The Company does not know at this time what capital expenditures will be funded with funds collected under this tariff if approved, however, the general type of plant to be funded is described in the proposed form of tariff.

**RIO RICO UTILITIES INC.**  
**DOCKET NO. WS-02676A-09-0257**  
**RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.10

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- Q. Please provide a detailed description of the plant items included in the capital expenditures listed above. This description should include justification of need and the scheduled plant construction start and in-service dates. Provide copies of any engineering analysis or studies that were prepared in support of the proposed plant additions for both Water and Wastewater systems.

OBJECTION: The Company does not know at this time what capital expenditures will be funded with funds collected under the HUF tariff if approved, however, the general type of plant to be funded is described in the proposed form of tariff.



**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 24, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392  
Company Response Number: JWL 1.11

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Q. Describe in detail how the subject capital expenditures were used to develop/calculate the Company's proposed hook-up fee amounts both Water and Wastewater systems.

OBJECTION: The Company does not know at this time what capital expenditures will be funded with funds collected under the HUF tariff if approved, however, the general type of plant to be funded is described in the proposed form of tariff.

RESPONSE: Without waiving its objection, RRUI responds as follows. Please see Sorensen Testimony page 11. Additionally, the cost of sewer capacity is currently anticipated to be between \$8 and \$20 per gallon, with a standard home using between 200 and 320 gallons per day.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.12

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Q. Please explain in detail how proposed water plant items benefit the entire water system.

OBJECTION: The Company does not know at this time what capital expenditures will be funded with funds collected under the HUF tariff if approved, however, the general type of plant to be funded is described in the proposed form of tariff.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 16, 2009

Response provided by:

Title:

Company Name:

Address:

Company Response Number: JWL 1.13

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Q. Please explain in detail how proposed wastewater plant items benefit the entire wastewater system.

OBJECTION: The Company does not know at this time what capital expenditures will be funded with funds collected under the HUF tariff if approved, however, the general type of plant to be funded is described in the proposed form of tariff.

**RIO RICO UTILITIES INC.  
DOCKET NO. WS-02676A-09-0257  
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS**

July 24, 2009

Response provided by: Greg Sorensen  
Title: Director of Operations  
Company Name: Algonquin Water Services  
Address: 12725 W Indian School Rd Suite D-101  
Avondale, AZ 85392  
Company Response Number: JWL 1.14

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Q. Why does the Company believe that its systems are a good candidate for the hook-up fee tariff? Please explain the benefits and drawbacks for the Rio Rico Utilities, Inc. with the proposed hook-up fee tariff.

RESPONSE: See Sorensen Testimony page 11. Additionally, the company believes that development should help pay for itself, and the utilization of a HUF would assist in this manner. The Parent Company currently has a significant rate base investment in the utility, and believes it would help keep rates down if there was a HUF to infuse CIAC for centralized plant for water (wells/pressure/storage) and sewer capacity/lift stations.

## **Attachment 4**

Production capacity and storage capacity calculation for Rio Rico Utilities' Water System

spreadsheet file: wtrchk.xls

LETTER FILE NAME

DATE

WATER COMPANY

MAIN EXTENSION WITH

Rio Rico Utilities

PWS #12-011

Jun-08

PEAK MONTH

DAYS IN PEAK MONTH

30

WATER USE DURING PEAK MONTH (GAL)

87,027,000

NUMBER OF SERVICE CONNECTIONS

IN PEAK MONTH.....

6,506

NUMBER OF SERVICE CONNECTIONS

AT PRESENT.....

6,605

EXISTING STORAGE (GAL)

2,130,000

LARGEST PRODUCING WELL/SOURCE

(GAL/MIN).....

1,300

TOTAL WELL/SOURCE PRODUCTION

(GAL/MIN).....

5,275

FIRE FLOW (GAL/MIN)

1,150

DURATION (HOURS)

2

AVERAGE DAILY WATER USE DURING

PEAK MONTH (GAL/DAY-SERVICE)

446

IS ADDITIONAL STORAGE REQUIRED?

no

AMT OF ADDITIONAL STORAGE REQ'D (GAL)

none

DEMAND ON PEAK DAY (GALLONS)

3,681,303

(PEAK DAY= 1.25x MONTH AVG)

TOTAL DAILY SOURCE PRODUCTION (GAL)

7,596,000

IS ADDITIONAL PRODUCTION REQUIRED?

no

AMT OF ADD'L PRODUCTION REQ'D (GAL/MIN)

none

ADDITIONAL CONNECTIONS ALLOWABLE

BASED ON STORAGE

10,700

ADDITIONAL CONNECTIONS ALLOWABLE

BASED ON PRODUCTION

7,024